[H.A.S.C. No. 108–42]

108

Y 4.AR 5/2 A:
2003-2004/42
Department of Defense Small-Cal

DEPARTMENT OF DEFENSE SMALL-CALIBER AMMUNITION PROGRAMS AND THE ASSOCIATED INDUSTRIAL BASE

BEFORE THE

TACTICAL AIR AND LAND FORCES SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

HEARING HELD
JUNE 24, 2004

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THURSDAY, JUNE 24, 2004

SMALL-CALIBER AMMUNITION PROGRAMS AND THE ASSOCIATED INDUSTRIAL BASE

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SMALL-CALIBER AMMUNITION PROGRAMS AND THE ASSOCIATED INDUSTRIAL BASE

House of Representatives,
Committee on Armed Services,
Tactical Air and Land Forces Subcommittee,
Washington, DC, Thursday, June 24, 2004.

The subcommittee met, pursuant to call, at 2:20 p.m., in room 218, Rayburn House Office Building, Hon. Curt Weldon (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. CURT WELDON, A REPRESENTATIVE FROM PENNSYLVANIA, CHAIRMAN, TACTICAL AIR AND LAND FORCES SUBCOMMITTEE

Mr. Weldon. The subcommittee will come to order. This afternoon, the Tactical Air and Land Forces Subcommittee meets to receive testimony from government and industry witnesses on small-caliber ammunition programs within the Department of Defense (DOD). We hope to update the Members on the status of these programs and perhaps clarify some misunderstandings based on media reports.

Before we begin, I would like to note that large, medium and small-caliber ammunition programs represent a relatively small percentage of the defense budget, yet in the global war on terrorism, small-caliber ammunition represents a critical capability. There are 11 different sizes of small-caliber ammunition rounds and 85 various types, from blanks to armor piercing rounds, among the various caliber of rounds. Because three rounds, 5.56 millimeter, 7.62 millimeter and 50 caliber rounds represent over 95 percent of expenditures, our discussion today will focus on those rounds.

This subcommittee, in previous years as well as in the fiscal year 2005 defense budget under consideration, has urged the Department of Defense to do more to facilitize the ammunition industrial base and provide for more ammunition procurement. In the last three years we have added over $125 million for ammunition industrial base upgrades and increased production. Our increase this year for small-caliber ammunition procurement of $79 million represents a 30 percent increase over the President's request.

In addition, this year we authorized an additional $22 million for increased facilitization of small-caliber ammunition production at the Lake City facility, the single government facility for small-caliber ammunition production.

We understand that prior to 9/11 that the total DOD small-caliber ammunition requirement through the 1990's, up until 9/11 was 350 million rounds per year and that this entire production was provided by the government-owned, contractor-operated Lake City Plant in Independence, Missouri—or Missoura if Ike Skelton was here. He is not here, so it is Missouri.

Subsequent to 9/11, the former Army chief of staff issued guidance to change the training requirements for the Army, and thus the total DOD training requirement increased to 1.1 billion rounds per year. Lake City has therefore had to significantly increase production, and the Army, on behalf of DOD users—and I would mention for our colleagues, the Army is the procurer for all of our conventional ammunition, not just itself—has gone to other sources to satisfy some near-term urgent needs.

In addition to the increased training requirement, the global war on terrorism has resulted in increased expenditures. As an example, operations in Iraq in the past year resulted in the expenditure of 72 million rounds, or about 6 percent of this fiscal year's production. Current expenditures in Iraq are reported as 5.5 million rounds per month.

Some media reports have cited shortages in small-caliber ammunition. In January of this year, one reporter indicated that in response to a posting on his web site, within a 24-hour period he had 500 responses from serving Army troops in the United States preparing for deployment to Iraq and Afghanistan, as well as from soldiers all over the world, citing shortages of live and blank training rounds.

The Army in response to a query on this indicated, and I quote, "In the aggregate, the Army has sufficient training ammunition to resource deployed and deploying soldiers to the very highest levels and ensure their readiness for contingency operations," end quote.

A May 27th UPI release was titled, quote, Army short 300 million bullets, end quote, and quoted an Army spokesperson as saying that the Army planned to increase production at Lake City to 2 billion rounds per year. In response to this and other press articles in May, an Army Support Command spokesman indicated that, quote, the military ran no risk of being depleted of ammunition, end quote.

Further, there appear to be varying views among our witnesses today. In her prepared statement, Mrs. Davies, the president of the Lake City plant, calls the national stories reporting on the shortage, quote, a misnomer. Yet our association witness sitting next to our distinguished guest here, observes that current shortfalls of small-caliber ammunition have caused DOD to utilize off-shore production capabilities to satisfy a portion of DOD's near-term requirements and cites, quote, the serious shortfalls of small-caliber ammunition confronting this industry's government customers, end quote.

Mr. Palaschak also notes U.S. dependence on a foreign source for metal clad steel needed in some small-caliber bullets. That is why we are confused.

DOD witness statements also seem to contradict official Army statements by indicating that the global war on terrorism is, quote, consuming large quantities of small-caliber ammunition and putting a strain on the associated industrial base, end quote. With annual expenditures for the global war on terrorism less than 10 percent of inventory and also less than 10 percent of monthly production, it is not immediately evident to us what the problem is.

The DOD witnesses also cite the, quote "urgent requirement for ammunition," end quote, in justifying the awarding of contracts to foreign sources. Given the 1 billion round inventory, a 100 million round per month production capability, and less than 10 million rounds per month being expended in hostilities, the subcommittee needs to better understand why some experts cite shortages while others call such characterizations misnomers.

We hope to clarify for all concerned what the current status is and what future requirements are projected to be.

Before we begin testimony, I would like to ask my good friend and colleague from Hawaii if there are any opening remarks he would like to make.

Mr. Abercrombie.

[The prepared statement of Mr. Weldon can be found in the Appendix on page 27.]

STATEMENT OF HON. NEIL ABERCROMBIE, A REPRESENTATIVE FROM HAWAII, RANKING MEMBER, TACTICAL AIR AND LAND FORCES SUBCOMMITTEE

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. I think you have, as usual, stated the case clearly and with detail, and my only commentary at this stage is by way of offering a context. A little bit wider context is that this committee, especially under your chairmanship is interested in understanding what we need to do to sustain and maintain and improve an industrial base, not just in this particular instance where ammunition is concerned but across the board.

And, second, what I have termed, as you know, the over-horizon infrastructure so that we are prepared in terms of training facilities and operational activities, testing facilities, et cetera, capable looking into the future of dealing with weapons changes and thus military platform changes so that we are ready for an infrastructure context that these weapons have to be sustained, maintained and improved.

So I think this is part of your overall thrust in this direction, and this will not be the last hearing. It may be a different subject matter, but it is going to be out of the same desire to make sure that we have an industrial base and infrastructure capability to meet all these necessities, and I want to assure you, at least as far as this Member on the democratic side of the aisle, that we are entirely supportive of you in that endeavor.

Specifically to this hearing today, in preparation for the hearing, the staff has provided us with some background, some of which you have cited in your remarks. One of the things that bothers me here, and I think helps to illuminate the, I won't say sense of confusion, but kind of dichotomy of opinion that apparently exists is that the Army officials are quoted as saying, "We are on the road to recovery now." That seems to indicate that there was a shortage or had been some difficulties, but then the next quote is, "The press is six to nine months behind the power curve," which presumably means that it's been resolved. And as a matter of fact it may have been resolved sometime in the past and there are no difficulties at the present time.

So I do think there is a bit of a schizophrenia operating here that we need to resolve today. Thank you.

Mr. WELDON. I thank my friend and colleague for his very pertinent comments and remarks. Before I introduce our panel, I would just say I understand the problem we have here. We are your friends. We have plussed our funding in this category continuously because we want you to be properly equipped and prepared. But we are confused. We see contradicting statements from the media and some of them from officials. Even today, witnesses have differing views that are significant and substantive. So we have got to get to the facts and have a common playing field, and that is what we hope you are going to do for us today as we go through our testimony.

Since the Army is the primary customer of all small-caliber ammunition and the DOD single manager for these programs, the Army is our lead in providing testimony for these programs we are very pleased to have Major General Buford Blount, Assistant Deputy Chief of Staff for Operations; Brigadier General James Rafferty, Deputy Commander, Joint Munitions Command, Brigadier General Paul Izzo, Program Executive Officer, for Ammunition. Representing the primary producer of small-caliber ammunition we have Mrs. Karen Davies, president—is it Davies or Davis?

Mrs. DAVIES. Davies.

Mr. WELDON. Davies. Thank you. Alliant Techsystems, Lake City small-caliber Ammunition Company. And representing the munitions industry we have Richard Palaschak, director of operations, Munitions Industrial Base Task Force.

Without objection, all of the witnesses' prepared testimony will be accepted for the record.

General Blount, I understand that you commanded the 3rd Infantry Division that led our forces into Baghdad just over a year ago. We want you to know we are proud of you. Proud of the great job that you did, the great way our troops responded and it is an honor and a pleasure to have you here, and we want to thank you for your service to America. We were all watching and cheering with you as you did an extremely difficult job in a very professional way. So thank you. You may begin with your opening remarks.

STATEMENT OF MAJ. GEN. BUFORD C. BLOUNT III, ASSISTANT DEPUTY CHIEF OF STAFF, G-3, UNITED STATES ARMY; BRIG. GEN. JAMES RAFFERTY, DEPUTY COMMANDER, JOINT MUNITIONS COMMAND, UNITED STATES ARMY; BRIG. GEN. PAUL S. IZZO, PROGRAM EXECUTIVE OFFICER, ANMMUNITION, UNITED STATES ARMY; KAREN B. DAVIES, PRESIDENT, ALLIANT LAKE SMALL-CALIBER AMMUNITION COMPANY AND RICHARD PALASCHAK, DIRECTOR OF OPERATIONS, MUNITIONS INDUSTRIAL BASE TASK FORCE

General BLOUNT. Thank you, sir. Mr. Chairman, distinguished members of the subcommittee, we appreciate this opportunity to appear before you. It is our privilege today to discuss the Army's small-caliber ammunition programs and associated industrial base initiatives.

On behalf of the Army and our soldiers, as a former commander of the 3rd Infantry Division, I would like to take this opportunity to personally thank you and the several Members of your subcommittee who have taken the time to visit our forward-deployed soldiers. Your genuine concern and personal presence have a direct and positive impact on the morale of our soldiers. Your efforts to ensure our troops are properly equipped enabled me to better prepare the 3rd Infantry Division for attack into Iraq and rapid seizure of Baghdad.

As you know, we are engaged in a war fighting operations in Iraq and Afghanistan. We have soldiers deployed around in the world in over 120 different countries, and we are mobilizing and training units here in the United States for deployment overseas. These activities are consuming large quantities of munitions and are putting a strain on the production capabilities of the munitions industrial base.

The focus of our dialogue today is the production and consumption of small-caliber ammunition. This category includes 84 unique rounds that are used either for soldier training or for war fighting in Iraq and Afghanistan.

Today, we have been asked to address three critical small-caliber ammunition rounds and our government-owned, contractor-operated production facility, Lake City in Missouri. Specifically, we are here at your request to discuss requirements, inventories, procurement, industrial-based capacity and program funding associated with the production and use of small-caliber cartridges.

I have with me Brigadier General Izzo, Program Executive Office of Ammunition, and Brigadier General Rafferty from the Joint Munitions Command. I have submitted a joint statement for the record but would like to take this opportunity to highlight some of the key points made in my statement.

I will start out by saying the Army has sufficient ammunition to conduct current operations. But if we had to fight a major war in another theater in the near term, it would necessitate us to restrict Continental United States (CONUS training expenditures and apply current inventory and new production to those combat operations.

small-caliber ammunition is not just an Army issue. We are the single manager for conventional ammunition for all of DOD and supply training and warfighting ammunition to all branches of the armed forces. The Department of Defense requirement for small-caliber ammunition has grown from approximately 600 million rounds in 1999 to over 1.5 billion cartridges today. And over the next five years it is projected to grow to 1.7 billion rounds annually.

The requirement increase can be attributed to 3 primary factors: A revised training strategy after 9/11, the mobilization demands for the global war on terrorism operations and the increased density of individual and crew-served weapons as a result of these operational needs.

Soldiers training for war are the principal drivers of the total requirement for small-caliber ammunition. Currently, we shoot 80 percent of our small-caliber ammunition on the training ranges and in live fire exercises. Current operational expenditures account for the rest of the requirement. Expenditures to date for the war in Afghanistan are estimated at 21 million rounds, and expenditures in operations in Kuwait and Iraq currently total 72 million rounds.

The Army has already taken action to improve our small-caliber posture over the program years and has taken steps to ensure that production levels are maintained by prioritizing small-caliber programs in the fiscal year 2006 to 2011 program objective memorandum (POM). Additional dollars will be required from supplemental funding in order to replenish operational expenditures in a timely manner and to replenish the Army's warfighting inventories. We will be asking you for help with this supplemental funding to execute this strategy.

In the near term, balancing training requirements with current operational needs is a manageable risk. The Army does not want to repeat its history of building capacity during wartime only to dismantle the capacity in peacetime. We plan to leverage commercial industry to meet requirements that fill the gap between our organic base and our current needs.

Mr. Chairman, that concludes my remarks. We look forward to exploring these subjects in more detail, as directed by your questions.

[The joint prepared statement of General Blount, General Izzo and General Rafferty can be found in the Appendix on page 35.]

Mr. WELDON. Thank you, General, and I understand we are going to skip our other two Army witnesses and go right to Mrs. Davies.

Mrs. Davies, you are recognized.

Mrs. DAVIES. Thank you, Mr. Chairman and other Members of the committee. I appreciate the opportunity to represent Alliant Techsystems, or ATK, today and to give you our perspective on the industrial base and also particularly Lake City.

We are very appreciative of this committee's long-time support for the munitions base. It has made a very big difference for Lake City, and it will continue to do that in the future.

I would like to just give you a quick summary of some of the major points from my statement and hopefully clear up any confusion I may have attributed to.

First of all, I think we have worked with the Army to largely restore the small-caliber ammunition industrial base. As you mentioned in your opening comments, Mr. Weldon, the plant was operating at about 350 million rounds in the late 1990's, and today we are comfortably at 1.2 billion rounds. That is a very quick ramp-up in just four years, and we have been able to use some of the funding provided by Congress, some of the investment made by the Army and also ATK's own capital, about $30 million in capital, to bring the plant to that capability.

Outside of just the equipment and the buildings there, the other important thing has been the people. We had about 650 employees when we started running Lake City, and we are at 1,950 today. So we have hired and trained 1,300 people. And that is where a lot of the industrial base knowledge really is. They are an extremely dedicated and confident group of people, and I think they are really the brain trust of the Nation on military small-calibur ammunition.

It would be very difficult to replicate that knowledge anywhere else.

The second major point is Lake City's capacity is not limited to 1.2 billion rounds, and that is in my prepared statement what I referred to as a misnomer. There actually is more rough capacity at Lake City than the 1.2 billion rounds that we are building at today. We are using about 70 percent of the floor space that exists at Lake City, which has 500 plus buildings and just under 4,000 acres, so it is a very large facility.

The Army has asked us to be ready to surge to 1.5 billion rounds by early 2006. We can do a pretty good step of that with just adding staff in some of our operations, getting up to 1.35 billion rounds per year, and we can take the rest of that step by activating some of the equipment that is in lay-away at Lake City.

We have also worked with the Army to understand if the requirement does go to 2 billion what Lake City should be prepared to do to meet that requirement. And because the floor space is there, we can lay out a plan to take a look at if we entirely wanted to rely on the organic base what that would take. It could be that the best decision will be to complement Lake City's capabilities with the commercial base, and we are cooperating with the Army to define that so that we do that as cost effectively as possible.

The third major point I wanted to make is that the supplier base has grown along with us. We have about 1,800 suppliers who feed us, and as we look at their capabilities, there will be a few issues as the total production ramps up. But, in large part, we should be able to sustain that increase without any major difficulties.

Fourth, we share the Army's concerns, as Major General Blount stated, on making sure that we don't overcapacitize and that we make this expansion affordable. Given the cyclic nature of ammunition in the past, we want to make sure that we do the optimum solution so that when the requirements do go down, the Nation can afford the sustainment of that base, both at Lake City or at a commercial manufacturer and also at our supply base.

The final point that I wanted to highlight is that regardless of the surge in requirements, Lake City is in need of modernization. We build very high quality ammunition at Lake City, but we build a lot of it on 1940's vintage equipment. The last big infrastructure modification that was made in Lake City was in the 1970's, and that is a fairly automated piece of equipment. It was very well designed, but it still has the same computer system from the 70's and 80's vintage, and you can imagine what kind of challenge we have to maintain that with spare parts and with the capability that you need to support that software and also the hardware in the computer system.

The action that has been taken by Congress over the last two years has helped us begin on that path, and we have been able to begin those upgrades. We are working with the Army now to define exactly how much modernization is appropriate and at what levels so that we can put that whole plan in place and work toward a sustained capability at Lake City for the future.

As you mentioned, Mr. Abercrombie, the mix of rounds and the weaponry that is going to be used is extremely critical there. The ammunition equipment that we have today is fairly well dedicated to one caliber or another. What I am encouraged about as we have laid out these plans is we are finding some new equipment that can switch more easily so that we will have some flexibility in the future as the Army's needs change to be able to adapt at Lake City.

In conclusion, ATK is extremely proud of the role that we play in supporting our Nation with space and defense systems. And at Lake City we are particularly proud of what we have been able to do to help restore the Nation's small-caliber ammunition industrial base. Many of our Lake City employees are in the same situation as I am. We have a son or a daughter or another loved one who is in the armed forces. That is a tremendous reinforcement of just how important the product is that we build, and we know as a group of people how important it is that every round of ammunition we make serve its mission.

I appreciate again the opportunity to speak with you today and look forward to any questions you may have.

[The prepared statement of Mrs. Davies can be found in the Appendix on page 46.]

Mr. WELDON. Mr. Palaschak, you are recognized.

Mr. PALASCHAK. Mr. Chairman, Mr. Abercrombie, Members of the committee, thank you for the opportunity to appear before you today. I am here representing the Munitions Industrial Base Task Force, which is a non-profit trade association of 18 companies representing a substantial cross-section of this Nation's munitions industry.

Prior to the end of the Cold War, our military relied upon large inventories in munitions combined with orchestrated mobilization of an industrial base that was comprised of government-owned manufacturing plants and a group of proven privately owned companies.

The end of the Cold War triggered a major change in our strategy and, not surprisingly, an ammunition war reserve requirement. For example, the Army's overall munitions war reserve requirements were reduced by nearly 75 percent. Their small-caliber ammunition requirements were only reduced by 35 percent, which closely mirrored the percent reduction in force structure.

Several other decisions were made that would limit the ability of our industrial base. In the constrained budget environment during the 1990's, military leaders and resource managers were looking for ways to reduce the amount of funds tied up in munitions inventories. For example, the days of supply in the pipeline for training unique ammunitions were greatly reduced. Specific to small-caliber ammunitions, the Army made a conscious decision to buy only 50 percent of its war reserves because they concluded that production lines at Lake City could rapidly respond to any increased demands.

DOD munitions procurement budgets underwent draconian reductions as the services relied upon stocks buildup during the Cold War to support annual training and war reserve requirements. A major effort was undertaken to drastically reduce funding for production-based support in our government-owned plants, to dispose of unneeded production equipment and facilities throughout the base and to reduce the operating footprint at ammunition plants and also at privately owned facilities by consolidating operations.

As a consequence of these actions, the overall capacity of the industrial base was drastically diminished. Much of the remaining idle equipment at facilities were not adequately maintained, and modernization or upgrading of capabilities was a low priority.

The recent demand for increased small-caliber ammunition production have highlighted the shortcomings in our production base that have evolved during this period. When the increased requirements for 5.56, 7.62 and .50 caliber cartridges surfaced, all of the DOD's needs for these rounds, with the exception of some small quantities of specialty rounds, were being produced at Lake City.

Lake City is the sole remaining government-owned small-caliber ammunition plant. It is the key and essential U.S. national capability for the manufacture of small-caliber ammunition in existence today. No other facility in the free world possesses the enormous production capacity still resident at Lake City.

Lake City is currently producing, as you heard, at a rate of about 1.2 billion cartridges per year, which is about the rate, the average rate during World War II, during the Korean War and during the Vietnam War. During the Vietnam War, privately owned companies manufactured significant quantities of small-caliber ammunition to supplement the production coming from the government-owned facilities.

During the defense build up of the 1980's, and, incidentally, I was the commander at Lake City at that time, private industry was again asked to produce significant quantities of small-caliber ammunition in tandem with the ongoing production at Lake City. An acquisition strategy that engages private industry's capabilities to supplement Lake City's capabilities has both historical precedent and provides insurance against some future change in requirements. It also provides a relief valve as Lake City modernizes its production capabilities and expands both its capacity and its workforce.

The commercial production capability available in the national technology and industrial base today cannot meet the maximum annual quantity needed from it, as projected by the single manager for conventional ammunition. With modest investments, that capability could be more than doubled within a year but would still be less than the maximum quantity that might be requested. Therefore, a prudent enhancement of commercial capabilities in addition to the expansion of Lake City's capacity is needed.

Private industry has indicated a willingness to invest in the expansion of their production capacity for U.S. military ammunition under the envisioned acquisition approach of the Army. However, without some assurance of a return on their investment, even a modest investment is a difficult decision for private industry when the government's proposed acquisition strategy offers no minimum annual production.

Unfortunately, because of the current shortfalls of small-caliber ammunition, combined with past DOD decisions that reduced the capacity and responsiveness of the national technology and industrial base for that ammunition, the DOD has utilized existing offshore production capabilities of a close ally to satisfy a portion of DOD's near-term requirements.

While Lake City is capable of some additional production above current rates within six to 12 months, as you heard from Mrs. Davies, it may be necessary to further utilize some off-shore capabilities in the near term to meet DOD's increased requirements for small-caliber ammunition. Off-shore production should not be necessary, nor should it be an option, after additional capacity is put in place at Lake City and in the other members of the national technology and industrial base.

I am going to not discuss the gilding metal clad steel since you have already recognized that, Mr. Chairman.

This afternoon, I have presented an assessment of the small-caliber ammunition production capabilities available to satisfy this Nation's requirements for these cartridges. While I am here representing our industry, I want to assure you that my primary focus is to most assuredly meet the needs of our military. It is in that context that I hope and trust that you will consider my testimony today.

Thank you for your attention and the opportunity to address the subcommittee.

[The prepared statement of Mr. Palaschak can be found in the Appendix on page 54.]

Mr. WELDON. Thank you for your testimony. Thank each of you for your testimony and for your service to the country.

Let's try to get to some of the issues where we have discrepancies, and I will get to the one I mentioned in my opening statement.

Mrs. Davies, you mentioned that the national shortages are a misnomer. My understanding is that we had a rather large contract that we had to go outside of the U.S. this year—I guess it was this year—to purchase ammunition. If it is a misnomer, why did we have to go outside of the U.S.—maybe the Army would want to answer this question—if in fact it is a misnomer?

And I would ask you and your industry representative to tell me why you claim it is a misnomer and yet the industry representative maintains that we have serious shortfalls of small-caliber ammunition confronting industry's customers? They appear to be directly at odds with each other. So whoever wants to answer these.

General, did you have a response?

General BLOUNT. I will start out, sir. And I understand your confusion with all of the different reports.

Mr. ABERCROMBIE. Mr. Chairman, before we give the answer, may I add an addendum for perspective, General, and we can maybe save a lot of time? The information given to the committee with respect to war reserve inventory, 5.56 millimeter, 7.62 millimeter, 50 caliber, as of 2000, now maybe there has been some difficulty with respect to what is taken place after. small-caliber inventory of 2000, 5.56 millimeter, 370 million; 7.62 millimeter, 291 million; 50 caliber, 14 million.

There is inventory in 2004, 5.56 millimeter, 700 million; 7.62 millimeter, 206 million; 50 caliber, 62 million. Now, that counts up to me to a billion rounds in stock right now. That is why I think we have got some confusion here, most particularly I am speaking in the context of Mr. Palaschak's statement about any kind of outsourcing at all. Does that make clear what we are asking and why and the kind of information that the chairman and I utilizing in terms of forming our questions?

General BLOUNT. Yes, sir.

Mr. ABERCROMBIE. Thank you.

General BLOUNT. And I will attempt to clarify some of that. And it is a confusing picture sometimes. Our first priority is to support the warfighter in theater, and I think everyone understands that. So our priority goes to supporting their requirements. The second is then preparing units to go to war, and that is a new requirement that is consuming a lot of our resources. The almost billion rounds that we have in stock is all of our ammunition, and that is our war reserve, but it is also what we use to train our soldiers with. So we have got the training requirement plus resourcing the fight requirement out of that billion rounds.

And so it is not a fenced war reserve that is sitting there. It is a constant turnover of ammunition, and there are claims on all of that ammunition. We have been short small-caliber ammunition, we are still short small-caliber ammunition per our requirements. We have requirements to train all of our units getting ready. All of the mobilized National Guard units, all the soldiers coming on active duty have to be trained, qualified and prepared to deploy for combat, and that will consume—that requirement consumes our billion rounds that we have.

And as they produce the ammunition, we are shooting it really almost as fast as they can produce it. That is why we need to increase our production through the supplemental funding. We have been able to ramp up to the 1.2 billion rounds by the end of July.

Mr. ABERCROMBIE. Excuse me.

General BLOUNT. That will just meet our current requirements.

Mr. ABERCROMBIE. Chairman, if you would just a moment. I understand that. My difficulty is, and I think the origin of the question is we have demonstrated a capacity to ramp up from 2000 to 2004 despite the fact of the obvious increased use, both for training purposes, operational purposes, Iraq and Afghanistan. To ramp up from 2000 in a very brief period of time—in other words, this is not a criticism, if anything, it is actually saying, "Look, a hell of a job has been done here despite the increased usage operationally and for training, up from, just take 5.56, from 370 million to 700 million." That is where I think—it is not confusion so much as if we are capable of doing that, why would there be any outsourcing necessity?

Mr. WELDON. And along with that, General, the testimony is that we have a million units per year for training—or a billion, I guess it is, for training, and a hundred million for the war, which comes to 1.1 billion, and our production is 1.2 billion. So the question is why do we have a shortfall in any area? We don't understand that.

General BLOUNT. Yes, sir. And then I will add—I was cautious on this earlier, the other services have a 250 to 300 million requirement, and that is what gets us up to the 1.5. billion Okay. And I will pass down to acquisition for the outsourcing answer.

General IZZO. Mr. Chairman, if I might, when we took a look at the requirement, which was 1.55 billion for this year, and we looked at what Lake City can do as far as capacity, the 1.2, there was a gap in there. So as the acquisition folks, as we looked at that, we saw how we are going to fill that gap and how soon can we fill it, and that is when we went out with a worldwide search to find out or to find the folks that could fill that gap.

We had only two people that could come back and fill that gap with the right kind of ammunition that met our technical requirements in the time frame that we needed it. So it took us about six weeks to find them, to verify it and get them on contract and they are giving us the deliveries this month. We are starting to get the deliveries, about 5 million rounds a month.

So to fill that gap, that is why we found Israeli Military Industries (IMI) over in Israel that gave us, looks like, about half of that, and then another local contractor within the United States that gave us the other half. So we filled that. That was a temporary gap fill. We went out worldwide to do that.

Mr. WELDON. So you felt it was necessary to go outside as opposed to ramping up any additional production at Lake City?

General IZZO. Yes, sir, because of the time frame and what the requirement is. I get the requirement and then in order to meet it, that is what we had to do to meet the requirement for this year.

Mr. WELDON. Do you anticipate additional contracts going outside the U.S. for production or are you satisfied with our current plan we can increase production at Lake City to handle any increased need?

General IZZO. Okay. A couple questions there. The first question, for this year, we are satisfied for where we are today that we went outside the United States to get that ammunition. Now, for next year, our plan is we have the 1.2 billion that come from Lake City. We have given additional dollars this year to ramp up another 300 million rounds, which would give us 1.5 billion capacity within the next year to 18 months.

In the meantime, to still fill that void, that gap in there, what we are doing is going to a prime contractor, the request for proposals will go out within the next two months, to go out to solicit wherever, worldwide, best value competition to be able to fill the gap that we need, another 350 or 300—I think it is about 350 million rounds. So to fill that gap for next year, we are going out with that contractor to get that much.

At the same time, we are going to work with Lake City to get their production rates up. To be able to fill the need with all services in the U.S. next year is about 1.7 billion round. So that is how we are approaching that.

Mr. WELDON. I thought the general testified 1.5 billion.

General IZZO. Sir, that is for the U.S., and with the other services it comes to a little over 1.7 billion.

Mr. WELDON. Do you agree with that, General?

General BLOUNT. That is what we will eventually grow to, yes, sir, over the POM cycle.

Mr. WELDON. Mr. Palaschak, does the industry group that you represent agree that we should be doing this outsourcing of ammunition?

Mr. PALASCHAK. It is necessary in the near term, sir. I called every single ammunition producer in the national technology and industrial base to find out what their current capacity was, what their availability of capacity is today, and it is absolutely necessary in the near term, and that is what I said in my statement.

There are available capacities at several of these facilities that would be available within about a year to two years. Some of the companies have contracts, both for offshore ammunition and also for commercial contracts, that they cannot break and utilize that equipment for military spec ammunition. And there has to be some adjustments to convert some of the equipment from commercial production to military spec ammunition and get it qualified. And it is that time frame that you can't satisfy without going offshore, in my judgment.

Mr. WELDON. Is any of our Lake City ammunition going to NATO allies or other nations that work with us?

General BLOUNT. In theater, yes, sir. We support the ammunition requirements in Kuwait and Iraq.

Mr. WELDON. So in fact it is not just for our Army, we are also supplying ammunition for other nations.

General BLOUNT. That are supporting us in the war on terrorism; yes, sir. But as you know, that is a limited number of soldiers.

Mr. WELDON. Mr. Palaschak, are there U.S. companies supplying ammunition to other allies of the U.S. in some of these categories of ammunition?

Mr. PALASCHAK. In the national technology base there is. The Canadian company, SNC, which is a part of our national technology and industrial base, is in fact producing ammunition and providing it to our allies. I am not aware for these three particular calibers of the other producers providing to our allies.

Mr. WELDON. Well, what I am trying to find out is if the other part of our U.S. industrial base is actually supplying ammunition to other NATO countries and then we are going over from some of our friends overseas and buying ammunition when in fact we could buying it from our own industrial base. Is that in fact a possibility?

Mr. PALASCHAK. I don't know that there is a one-for-one situation such as you are describing.

Mr. WELDON. Well, maybe not one for one but are there——

Mr. PALASCHAK. But, certainly, I know the Canadian company is providing ammunition to our allies. And I don't know the specific countries. That is my problem in answering your question.

Mr. WELDON. Mrs. Davies, you testified that there are significant needs to upgrade the Lake City facility and that there has not been any money forthcoming at the Army. We appropriated $'17.5 million for that purpose for this fiscal year, and the Army maintains they have spent $14 million there. Now, you maintain there has been nothing spent, the Army maintains they spent $14 million. What is going on?

Mrs. DAVIES. Sir, if I testified of that, I made a mistake. Certainly, the money that is been appropriated by Congress has been invested at Lake City. The Army has put some of their funding into it. ATK has also put funding into there. So I apologize if that was a misunderstanding.

Mr. WELDON. Do you think the figure is $14 million? Yes. I think your statement was that there wasn't money being put forth, and we have records that we have. So we just wanted to make sure that money——

Mrs. DAVIES. No. There is, sir, very definitely.

Mr. WELDON. Okay. What do you estimate the amount of investment to be for modernization at Lake City?

Mrs. DAVIES. We are not through with that estimate yet. Part of the issue is to what level, because we need to define exactly what we want to modernize, if it is $1 billion or $1.2 billion, so we are working with the Army now to try and define that.

Mr. WELDON. General, when will we have the actual amount that we need to go to, whether it is 1.7 billion or whether it is 2 billion because there seems to be numbers floating around. We have seen 2 billion, we have seen 1.7, 1.5. When will we know what that final amount that we need to be targeting Lake City for will be?

General BLOUNT. Sir, our requirement is going to be 1.75.

Mr. WELDON. That includes all of our——

General BLOUNT. We are very—that is for DOD.

Mr. WELDON [continuing]. Of our users and supplying our NATO allies?

General BLOUNT. Yes, sir. Yes, sir.

Mr. WELDON. Okay.

General BLOUNT. Our chief of staff and myself are very concerned about a single point of failure, and so we want to incentivize and facilitize the industrial base outside of Lake City to produce another 300 million rounds. So that would give us the capacity to go to 2 billion rounds if necessary. And that is where the 2 billion is. The requirement is not there, but we would like to facilitize so we would have that capability if needed, if we needed to surge, because we do not have that capability to surge now.

Mr. WELDON. One final question before I turn to my colleagues. When we provide ammunition for our allies, do they reimburse us at all for any part of the cost of that ammunition?

General BLOUNT. Sir, I do not know.

Mr. WELDON. We don't know or——

General BLOUNT. I personally do not know, sir. I will have to take that for the record.

Mr. PALASCHAK. Sir, when I was on active duty, they did reimburse us or else they provided equivalent value of materiel that we needed. We often exchanged ammunition.

Mr. WELDON. Can we check that for the record, General?

General BLOUNT. Sure.

Mr. WELDON. Thank you.

[The information referred to can be found in the Appendix beginning on page 67.]

Mr. Abercrombie.

Mr. ABERCROMBIE. General Blount, can you tell me whose idea was it to contract a firm in Israel to produce ammunition to be used to kill Muslims in Iraq or in Afghanistan? I haven't heard anything so stupid in ages. You actually have a contract with an Israeli firm to provide ammunition to the United States military to engage in the war in Afghanistan and Iraq?

General BLOUNT. Sir, I will have to pass that down to my acquisitions.

General IZZO. Sir, my job is to fill a requirement. I have to fill that requirement——

Mr. ABERCROMBIE. Has it been vetted through the Administration in any fashion?

General IZZO. Sir, I filled that requirement within the DOD regulation and within the laws of open competition.

Mr. ABERCROMBIE. So nobody read—they are not aware of it?

General IZZO. Sir, the requirement I had was 300 million rounds.

Mr. ABERCROMBIE. You didn't go to Canada or any other place?

General IZZO. Sir, we had scrubbed that list. We looked worldwide. Those were the only two companies that could provide that ammunition.

Mr. ABERCROMBIE. You should have gone to the reserve and said, "This is not a good idea." I am telling you that right now. Just as this argument that is going on right now about how much we can torture people and still be able to have some lawyer tell us about whether we can get away with it or not in the Geneva Convention. It is undermining our capacity to conduct our affairs in the world in a manner that upholds, in the first, and in the second instance I just cited our moral authority in the world and the rest politically is just stupid.

It has nothing to do with the caliber of the work in Israel or anything else, but it leaves us open to questions about collaboration and every accusation that the enemies involved in the war on terror and those who are trying to recruit for al Qaeda and others will use against us. It makes no sense.

Mr. WELDON. Will the gentleman yield?

Mr. ABERCROMBIE. Sure.

Mr. WELDON. The gentleman brings up a point that we need to deal with, General, and what I would say to you is that have we started to receive the ammunition in that we have purchased from the Israeli company?

General IZZO. Yes, sir.

Mr. WELDON. I think that you have indicated that you have a backlog of 1 billion rounds. Shortly, at a minimum, I would hope that we could say that that ammunition if going into supply inventory as opposed to being produced and immediately going into the war. Is that——

General IZZO. Yes, sir. It went into our training account.

Mr. ABERCROMBIE. Well, I was about to say, Mr. Chairman, I will let this go, but I strongly advise, believe me, I do, I don't know the stage of this manufacture or where it is, but whatever it is this contract has got to be reviewed and I mean quick. And if there is ammunition that has come in and hasn't been used, by no means, under any circumstances should a round be utilized. It has nothing to do with the honesty of your effort and the rules or the quality of the work or anything of the kind, but politically it makes absolutely no sense at all.

It was almost, in certain sense, almost amusing when we had the changeover to the berets and we gave the contracts to Romania and China and "made in China" for our hat. It made us look foolish, it was all. But this has political implications that need to be resolved, and I certainly hope that no ammunition has been used. And if hasn't, by all means, I most strongly urge to review this instantly so that we are not going to be subject to propaganda and publicity in a way that we will find ourselves reeling from trying to explain the political implications of it.

Thank you, Mr. Chairman.

Mr. WELDON. I thank the gentleman. And you all understand that your job is to be the military leaders and you shouldn't have to worry about political correctness, but the reality is the reality, and the gentleman makes a very valid point that the media can twist and turn stories to be sometimes not what they are. And so if you can take our advice and suggestion in terms of that contract and put that into our replacement stock as opposed to what we are currently using——

General BLOUNT. Yes, sir.

Mr. WELDON [continuing]. I think that would be somewhat helpful. But I share the gentleman's concerns.

Mr. ABERCROMBIE. For the record, Mr. Chairman, if I might, General Izzo, I hope you don't think that I was directing anything to you personally or to the personnel in the military making these decisions. I understand completely what you are talking about in terms of trying to seek out. We have appointees to the Department of Defense whose job it is to vet the—whether or not the activities we engage in or expect you to carry out fit into the overall policies of the United States in a way that is going to be compatible with our foreign policy goals and so on. That is what I am raising for you.

General IZZO. Yes, sir.

Mr. ABERCROMBIE. Thank you.

Mr. WELDON. I thank the gentleman.

Dr. Gingrey?

Dr. GINGREY. Thank you, Mr. Chairman. Before I ask questions, let me just say that I thank Mr. Abercrombie. My colleague from Hawaii, makes a good point. I didn't know that, and, again, it is a political point, but it is a very good one. I am not sure I agree with him on the analogy with the interrogation situation in Guantanomo, but in any regard I think he does make a very strong point.

You probably already answered my question, and I thank all of you for taking your valuable time to be with us today, and we appreciate your input on this very important issue. As we all work to improve and modernize our domestic industrial base, we appreciate your hard work and forward thinking.

My question was going to be of course with the efforts in Iraq and Afghanistan, the ongoing war on terrorism, would we be able to ramp up quickly enough our domestic industrial base capability? I think you have already answered that. You may want to speak to it just a little bit more.

But I want to address this question maybe to Ms. Davies, and I don't know if I am the only person in the room that doesn't know the answer to this question, possibly I am, there was an old country song about Hank Snow. I don't see many in this room probably even know this song, but the name of it was—the title of the song was, "I have been everywhere." And I have been to Lake Tahoe, and I have been to Atlanta, I have been to New York City, but where the heck is Lake City? [Laughter.]

Mrs. DAVIES. You are probably not the only one who doesn't know that. We are about 25 miles east of Kansas City, in Independence, Missouri. Senator Harry Truman was born in Independence, and when the plant was built in 1941, he was the Senator from that area and actually broke ground for the plant.

Dr. GINGREY. Thank you very much.

Mr. WELDON. Thank the gentleman. Any other responses to the gentleman or no? OK.

The gentleman is recognized, Mr. Wilson.

Mr. WILSON OF SOUTH CAROLINA. Thank you all for being here today, and, General Blount, it is great to see you again. I had the opportunity to visit with you in February 2003 in the desert in Kuwait, and I can't tell you how proud I am of your service, of the extraordinary historic success of our troops. At that time we would have never dreamed that there would be a three-week seizure of Baghdad, and I just can't tell you how grateful I am for the lives saved because of the speed and the proficiency, competence, and professionalism. It is just wonderful to see you.

Additionally, of course, I identify with the 3rd Infantry Division in that I spent 25 summers, sometimes long summers, at Fort Stewart in my service in the National Guard, and I just have a high regard for your troops that I got to know firsthand as a Guard officer.

Additionally, again, I have just never been prouder of our troops, and I have had the opportunity to return in fact this weekend, on Monday. I had the opportunity to have dinner with the Marine Expeditionary Force. Who would ever dream—and I ended up back here Tuesday morning—to see our troops firsthand?

But I do have a concern, certainly, as to the reports which we are trying to address today of a shortage. So in very simple terms, what would be your view? Is there a shortage or not a shortage?

General BLOUNT. Sir, for the war effort, there is not a shortage.

Mr. WILSON OF SOUTH CAROLINA. And that is the key point. And then——

General BLOUNT. We have enough ammunition in theater, we have enough ammunition to support the war. We are taking short our training ammunition to make sure that the war effort is supported. And with our ramp up in our industrial base, we will be able to fulfill that.

Mr. WILSON OF SOUTH CAROLINA. And I truly ask this question as a person who wants to be reassured as a Member of Congress, as a veteran of the National Guard myself, as the father of three children who are in the military, including one in Iraq, and that is our troops do have sufficient ammunition in theater, at every level, every troop. They don't feel constrained in terms of protecting themselves, protecting the Iraqi civilian population.

General BLOUNT. Sir, I will say that there is sufficient ammunition in theater. Now, just from the reports and the articles in the paper, there may be an isolated case where one or two days a soldier, for one reason or another, doesn't have enough—he feels he doesn't have enough ammunition. That is very possible to happen, but I am sure as soon as the leadership gets involved that that problem is fixed. There is more than adequate ammunition throughout the theater to resource all of our soldiers to make sure that they are able to protect themselves and fulfill their mission.

Mr. WILSON OF SOUTH CAROLINA. Excellent. And I, again, just want to thank you all for what you do to protect our country, and I am just proud of our troops, and I personally was transformed by September 11. I am not going to forget it, and we want to be prepared. Thank you very much. And I yield the balance of my time.

Mr. WELDON. I thank the gentleman. Just a couple of follow-on questions, and then we will submit some for the record, which we will ask you to get back to us on.

General, since Lake City is our only facility government owned, are you concerned about having only one supplier of small-caliber ammunition? Is that a concern to us that we should consider or is that not a problem?

General BLOUNT. Yes, sir, that is a concern.

Mr. WELDON. And do we have plans to attempt to do something about that in the near term or the long term? And when can we expect some——

General BLOUNT. Sir, that is our attempt, as we have discussed here today, to incentivize the industrial base, commercial industrial base so that we will have additional sources of ammunition, other than Lake City. Lake City will always be our primary, but we need the capability to ramp up for follow-on emergencies and to have a second source if something were to happen at Lake City.

Mr. WELDON. Our understanding is that there is a proposal out for a lead systems integrator (LSI), I guess, for the ramp-up capability, and we understand that the Army has 180 people in Illinois and New Jersey overseeing our current production of 1.2 billion rounds annually. Why have a lead systems integrator? Why not use the existing Army personnel unless, and I was saying to staff perhaps this is a part—there are uniform positions that is a part of realigning our military personnel. Explain to us why we need a lead systems integrator.

General BLOUNT. I will pass that down to——

General IZZO. That is my responsibility, sir. First of all, on the part of how many folks we have that are working the ammunition piece, there are only probably less than 25 percent of them are actually working on the contract piece to do that ammunition. Inside that number of folks you mentioned, you would have the tester, you have the inspectors, the handlers, the research and development folks, but that is not really the reason why we are going to a systems integrator or a prime contractor.

As we stand back and we look at how we want to make this work for the industry to be able to get these rounds in the future, we look at consolidation of procurement requirements and we use a systems integrator which they are experts in as far as taking all of these requirements and getting the efficiencies of buys. And what I mean by that is that we talked earlier about the different types of ammunition that you have, small cal ammunition, and you have the ball and you have the linked and the unlinked and the various calibers.

So if we were to take that on as a government to go ahead and start working those contracts, well, there would certainly be inefficiencies. And by that what I mean is if you have a single integrator of all of these types of rounds that pulls them all together, he buys in large quantities because he is buying for the whole family.

And, for example, the powder for these rounds, if we had seven or eight different contracts going out, that takes quite a few people, that takes quite a lot of time, and you would buy at certain levels different types of powder. But for this systems integrator buying all these types of rounds, he would buy in large quantities, like for the powder, and get the efficiencies. He would buy in large quantities the caps or the shellings that he needed for across the board, and we would get the efficiencies there. And that is where their expertise is.

And we really didn't want to get into the business as a government side to go and start giving all of the GFE per se or the government-furnished equipment or the supplies. We didn't want to get into that supply management because it is high risk. And when you are dealing with the time tables that we are dealing with and the quality that is needed to do that, and there are various other variables in there, the best approach is to go with this prime contractor, for him to integrate all these other contractors and compete that and work that piece.

Mr. WELDON. We generally support the idea of expanding our industrial base, and I am pleased to hear that you have that as a long-term plan and that is positive. Our concern is that where you bring in a lead systems integrator contract that is going to give us efficiency, more often than not that doesn't occur because of their overhead that they bring to the table, which is usually very significant. It ends up costing us a significant larger amount of money to support the overhead costs of that, especially if it is one of the bigger primes.

Now, that doesn't mean we are not for the privatization and the industrial base growth which you are planning, but I think we are going to be watching very closely to see whether or not what the lead systems integrator initiative is supposedly going to do for us versus what it does for us. These larger companies tend to have a way of ending up eating a lot of our dollars for the military for overhead. In fact, we are having a hearing on July 15 on the innovation of small business entrepreneurs who end up saving us money versus the large primes that tend to when they do something cost us an even higher amount for the same quality of product. So that is a concern we have with the approach.

We understand what you are saying. Our question is—and you are saying it is not really 180 people because a number of them aren't actually doing the purchasing, they are doing other things, but we are concerned that the LSI doesn't in fact become a major cost driver in itself as opposed to savings that we are all trying to realize. We want you to have the efficiency that you just talked about, but we want to make sure—so we are watching that very closely.

General IZZO. Yes, sir.

Mr. WELDON. And I guess, Mrs. Davies, you are going to give us a list of the improvements that are necessary for the Lake City facility as you develop that, for the record?

Mrs. DAVIES. Yes, sir. I would like to do that in conjunction with the Army——

Mr. WELDON. Yes. That is fine. I would like to have that for the record.

[The information referred to can be found in the Appendix beginning on page 67.]

General IZZO. Sir, for the record, I would like just to go back one step. And when we do this LSI per se or the integrator contract, that is going to be a competitive contract. So we will see across the board the folks that come in and we will be able to get the best price on it.

Mr. WELDON. No, I agree with that. The problem is once an LSI contract is given, they have a tendency to say, "Oh, we will do it for this," and by the time we have looked at it, it is up around here or higher, and there is so much overhead with our large contractor base. And I have taken this directly to the CEOs of these companies, but that is our concern with an LSI approach, although we understand why you are—we just want to let you know we are going to be watching that very closely, both to give the Army the capability they want but also to give the taxpayer the kind of cost control mechanisms they deserve.

One final question before I turn to my friend again. The press reports in May indicated that the urgent need contracts for 140 million rounds cost the DOD $140 million. That is $1 per round. Our understanding of that is the ATK price is 17 cents per round. That is quite a difference. Is that correct? And if so, why is it such a disparate amount of money?

General IZZO. I could tell you, sir, and we will have to go back and check specifically what the number is, I could tell you you are correct in the sense that there is a significant delta. It is a higher cost for the urgency requests we want out there. But I don't know exactly, unless we have that—I have that and I could provide that in a minute here what the exact cost was.

Mr. WELDON. And there were only two contractors that were able to meet the standard, one British and one Israeli?

General IZZO. Olin Winchester within the United States, they were one, and the only other one was Israeli to meet it within the time frame and give us what the——

Mr. WELDON. And were their prices both about the same?

General IZZO. Sir, if I could, if there is a way I could give you these later and not to say it in the record, they are kind of competition-sensitive.

Mr. WELDON. We would like to have that for the record. And also why the extreme variation. If this is a production line already in place in each of these facilities there, it should be somewhere near the price, probably perhaps not as low as we can do it but, certainly, that is a pretty big discrepancy.

Mr. Abercrombie.

Mr. ABERCROMBIE. General, that last comment, in other words, the Department of Defense is price-sensitive but politically it has its head where the sun doesn't shine. I mean, Mr. Chairman, what this points up to me in the previous question, we have got to have equipment in this country, we have got to have the industrial base in this country. If that means whether it is Lake City or one of the other 18 folks that Mr. Palaschak represents or is speaking for and we have to mothball the equipment when it is not being used because we can't expect companies to make a huge investment in capital equipment—I realize, Mr. Chairman, I am beginning to make a statement here rather than ask a question. No, I know. I am trying to cure myself. And you don't need to be subjected to me doing that.

Let me ask this: Is there a difficulty—and perhaps, Ms. Davies, I should address this to you. I am assuming that there is a difficulty when we have certain situations where we have to ramp up requirements that may involve additional investment in capital equipment, if nothing else, let along personnel and time and that, which may then not necessarily be able to be amortized, paid off, et cetera, utilized. Is that a difficulty for private firms?

Mrs. DAVIES. Yes, sir, you are absolutely right. Any time you are looking at a short-term need, if you have to actually buy equipment, it is hard to get that paid for in a short-term need.

Mr. ABERCROMBIE. So what General Izzo was referring to a bit ago about getting into a situation—or I was extracting from, getting into a situation where the government, in effect, is providing the capital for the equipment and so on, that that means the government then ends up, in a sense, having made an investment on something it isn't producing anything. Is that a——

Mrs. DAVIES. Right, and that is one of the concerns. It is a difficult balance you always face with the base.

Mr. ABERCROMBIE. True. But is that a concern, General Izzo, that you will be, in a sense, charged with or the Pentagon or your division, General Blount, will be charged with the idea or have to confront the idea, look, if we make this investment or you ask for this from the Congress and we make the investment, what happens when it has to sit there?

Now, this is where, Mr. Chairman, I will have to make a bit of an editorial comment is that—and you know this is consistent with my position over the years—from this Member's point of view, I think that that is on us, not on you. I think that you have to have this capability available to you. And if that means you have to, what I am going to call, mothball, the same way the Navy has to mothball ships that they may not be using for the transshipment of troops and materiel because there is not a necessity for it every day, all day, every year, and we mothball them or we put them in reserve. I don't think it is too far a stretch, General, to say we have a reserve, don't we, in the Army, and we call it a reserve for a specific reason, because that is what it is supposed to be.

So particularly where this is concerned, it seems to me, that if we make that kind of investment, even if we invest it not in a government facility per se but make an investment in a facility or facilities like that at Lake City, then we would mothball it or hold it in reserve, and that would be an expectation. We would maintain it, and then we should build that into our budget.

Now, I realize that is a certain philosophy that has to be there, but I think in these instances rather than go to what you are involved in right now, where the only—and I am going to take you at your word on this—the only—or what you were advised—the only entity available to do this in the immediate despite the fact we have got this reserve, in this instance it constitutes, from my judgment, a political blunder, which could obviate everything. And hopefully the chairman has given you a way out. If you haven't used any ammunition yet, for God's sake don't do it. Hold it in reserve.

But my analogy, I guess, Mr. Chairman, is at the end we have agricultural subsidies that some people don't like. I call them investments. We even pay people not to grow things in order to sustain prices. In other words, there is a public policy question that is involved in there. Now, some people approve it or they don't approve it or they call you names or they run for office on the basis of what you have done or not done. We will have to take that.

But I, for one, would like to indicate to you that I would like to see you make that kind of capital investment on the basis that this is in the national interest of the United States and in our security interests to be able to provide as much industrially as we can and should, even if that involves long-term maintenance of facilities and equipment that we might not necessarily be using every day and that we should take that into account when we do our budgeting.

I am sorry, I have kind of mixed up questions and philosophy, I guess, in the same commentary, but that is what my concern is, is you are going to find yourself in this position again and again where you have to—well, even if it is not outsourcing, you are going to have to be considering what I do in order to make this and you don't have anything available to you in the industrial base of the United States.

Mr. WELDON. I thank the gentleman for his comments and for his input, it is very valuable.

Does the gentleman from South Carolina have any additional questions?

Mr. WILSON OF SOUTH CAROLINA. Just one comment, and that is that I do consider Israel an ally of the United States, and so good people can disagree, but I believe that——

Mr. ABERCROMBIE. I am not disputing that.

Mr. WILSON OF SOUTH CAROLINA [continuing]. Competitive bidding should include countries that are allies of the United States. Thank you.

Mr. WELDON. I think the gentleman makes a point that all of us share. We are all staunch supporters of Israel, but there is a sensitivity here that I think all of us recognize, and I think we have made that case, and I think the gentleman's made it very well from Hawaii.

So I thank all of you for coming in and for your service. We are your friends, we are here to support you. We have consistently, as we have documented, given you more money than the administration has asked for. We did it in the previous administration as well. We will continue to do that. All we ask you to do is to help us make sure that we are all good stewards of the taxpayers' money, that we have the kind of improvements we need, that we involve the industrial base, as you have suggested, in expanding the capability and in the end give our soldiers the maximum capability that they need to do the job.

Thank you all. This hearing stands adjourned.

[Whereupon, at 3:26 p.m., the subcommittee was adjourned.]

APPENDIX

JUNE 24, 2004

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

June 24, 2004

Statement of the Honorable Curt Weldon
Chairman, Subcommittee on Tactical Air and Land Forces

Small Arms Ammunition Programs

June 24, 2004

The Subcommittee will come to order.

This afternoon the Tactical Air and Land Forces Subcommittee meets to receive testimony from government and industry witnesses on small-caliber ammunition programs within the Department of Defense. We hope to update our Members on the status of these programs and perhaps clarify some misunderstandings based on media reports.

Before we begin I would like to note that large, medium, and small-caliber ammunition programs represent a relatively small percentage of the defense budget, yet in the war on terrorism, small-caliber ammunition represents a critical capability. This subcommittee, in previous years as well as in the fiscal year 2005 budget under consideration, has urged the Department of Defense to do more to facilitize the ammunition industrial base and provide for more ammunition procurement. In the last three years we have added over $125 million for ammunition industrial base upgrades and increased production. Our increase this year for small caliber ammo procurement of $79 million represents a 30 percent increase over the President's request. In addition, this year we authorized an additional $22 million for increased facilitization of small-caliber ammunition production at the Lake City facility, the single government facility for small caliber ammunition production.

We understand that prior to 9/11 that the total DOD small caliber ammunition requirement through the 1990s, up until 9/11 was 350 million rounds per year and that this entire production was provided by the Government Owned, Contractor Operated Plant in Lake City, Missouri ("Missoura" if Mr. Skelton is there). Subsequent to 9/11 the former Army Chief of Staff decided to change the training requirements for the Army and thus the total DOD training requirement has increased to 1.1 billion rounds per year. Lake City has therefore had to significantly increase production and the Army, on behalf of DOD users, has gone to other sources to satisfy some near-term needs. In addition to the increased training requirement, the global war on terrorism has resulted in increased expenditures. As an example, operations in Iraq in the last one year period resulted in the expenditure of 72 million rounds -- or about 5 percent of this fiscal year's production. Current expenditures in Iraq are reported as 5.5 million rounds per month.

Some media reports have cited shortages in small caliber ammunition.

In January of this year, one reporter indicated that in response to a posting on his web site, within a 24 hour period he had 500 responses from serving Army troops in the United States preparing for deployment to Iraq and Afghanistan, as well as from soldiers all over the world, citing shortages of live and blank training rounds. The Army in response to query on this indicated: "...in the aggregate, the Army has sufficient training ammunition to resource deployed and deploying soldiers to the very highest levels and ensure their readiness for contingency operations."

A May 27th UPI release was titled: "Army short 300 million bullets" and quoted an Army spokesperson as saying that the Army planned to increase production at Lake City to 2 billion rounds per year.

In response to this and other press articles in May, an Army Support Command spokesman indicated that "the military ran no risk of being depleted...of ammunition."

Further, there appear to be varying views among our witnesses today.

In her prepared statement, Mrs. Davies, the President of the Lake City plant calls the national stories reporting on the shortage, "a misnomer." Yet our association witness observes that current shortfalls of small caliber ammunition have caused DOD to utilize off-shore production capabilities to satisfy a portion of DOD's near term requirements and cites "the serious shortfalls of small caliber ammunition confronting this industry's government customers." Mr. Palaschak/**PAL a CHEK** also notes U.S. dependence on a foreign source for metal clad steel needed in some small caliber bullets.

DOD witness statements also seem to contradict official Army statements by indicating that the global war on terrorism is "consuming large quantities of small caliber ammunition and putting a strain on the associated industrial base." With annual expenditures for the global war on terrorism less than ten percent of inventory and also less than 10 percent of monthly production, it is not immediately evident what the problem is. The DOD witnesses also cite the "urgent requirement for ammunition" in justifying the awarding of contracts to foreign sources. Given the one billion round inventory, a 100 million round per month production capability, and less than 10 million rounds per month being expended in hostilities, the subcommittee needs to better understand why some experts cite shortages while others call such characterizations misnomers.

We hope to clarify for all concerned what the current status is and what future requirements are projected to be.

Before we begin with testimony, I would like to ask my good friend from Hawaii if he has any opening remarks he would like to make.

Mr. Skelton – if present

(Mr. Abercrombie & Mr. Skelton, if present – Lake City Ammo Plant is in adjacent congressional district)

The Army as the primary consumer of small arms ammo is the DOD manager for those programs. To provide testimony on these programs we have Major General Buford Blount/**Blunt**, Assistant Deputy Chief of Staff, Operations, Brigadier General James **Rafferty**, Deputy Commander, Joint Munitions Command, and

Brigadier General Paul Izzo/**EYE-zo**, program executive officer, ammunition.

Representing the primary producer of small arms ammo, we have Mrs. Karen Davis, President, Alliant Techsystems Lake City Small Caliber Ammunition Company.

And representing the munitions industry, we have Richard Palaschak/**PAL a CHECK,** Director of Operations, Munitions Industrial Base Task Force.

Without objection, all witnesses' prepared testimony will be accepted for the record.

General Blount (**"BLUNT"**), I understand that you commanded the 3rd Infantry Division, that led our forces into Baghdad just over a year ago. Congratulations. It is a pleasure to have you with us. Please proceed with your opening remarks.

[After General Blount finishes:]

Thank you General Blount/**BLUNT**. General Rafferty, welcome, please proceed with your comments.

[After General Rafferty finishes]

Thank you, General Rafferty, General Isso ("**EYE-zo**"), please proceed with your opening remarks.

[After General Isso]

Thank you General Isso/**EYE-zo**. Mrs. Davies, thank you for coming here from Lake City to help us better understand your responsibilities and challenges. Your role is critical to supporting our troops in the field and we would like to say thank you to you and your 2000 Alliant co-workers for all that you are doing.

[After Mrs. Davies]

Thank you Ms. Davies, Mr. Palaschak ["**PAL a CHECK"]** Please proceed with your testimony.

[After Mr. Palaschak/Pal a CHECK, proceed with questions.]

[After all business concluded]

The hearing is adjourned

JOINT STATEMENT BY

MAJOR GENERAL BUFFORD C. BLOUNT, III
ASSISTANT DEPUTY CHIEF OF STAFF, G-3
UNITED STATES ARMY

AND

BRIGADIER GENERAL PAUL S. IZZO
PROGRAM EXECUTIVE OFFICER, AMMUNITION
UNITED STATES ARMY

AND

BRIGADIER GENERAL JAMES W. RAFFERTY
DEPUTY COMMANDER, JOINT MUNITIONS COMMAND
UNITED STATES ARMY

BEFORE THE

SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

ON

SMALL CALIBER AMMUNITION PROGRAMS AND THE ASSOCIATED INDUSTRIAL BASE

SECOND SESSION, 108th CONGRESS

JUNE 24, 2004

NOT FOR PUBLICATION
UNTIL RELEASED BY THE
COMMITTEE ON ARMED SERVICES

BIOGRAPHY
MAJOR GENERAL BUFORD C. BLOUNT III

Major General Buff Blount has been serving as the Army's Deputy G-3 since Oct 2003. Previously he was the Commanding General, 3d Infantry Division (Mechanized), Fort Stewart and Hunter Army Airfield. Major General Blount gave up command of the 3 ID after bringing them home from Iraq where they were the lead force in capturing Baghdad. Before his command Major General Blount was stationed in Saudi Arabia where he was the Program Manager for the Saudi Arabian National Guard Modernization Program.

Major General Blount has served in a variety of command and staff positions. His command assignments include Commander, Combat Support Company and B Company, 3d Battalion, 77th Armor, 5th Infantry Division (Mechanized), Fort Polk, LA; Commander, A Troop, 15th Cavalry, 197th Infantry Brigade, Fort Benning, GA; Commander, 3d Battalion, 64th Armor, 3d Infantry Division (Mechanized), USAREUR and Seventh Army, Germany; Commander, 3d Brigade, 4th Infantry Division (Mechanized), Fort Carson, CO. Between command assignments he has served as the Operations, Plans and Training Officer, 2d Battalion, 69th Armor, 197th Infantry Brigade, Fort Benning, GA; Aide-de-Camp to the Commanding General, 5th Infantry Division (Mechanized), Fort Polk, Louisiana, Chief, Test Support Division, United States Army Infantry Board, Fort Benning, Georgia Chief, Armor Plans and Operations Officer, Office of the Program Manager, Saudi Arabian National Guard Modernization Program, Saudi Arabia; Executive Officer, 4th Battalion, 64th Armor, and 2d Brigade, 24th Infantry Division (Mechanized), Fort Stewart, GA; and Division Chief of Staff, 4th Infantry Division (Mechanized), Fort Hood, Texas.

Major General Blount is a graduate of the University of Southern Mississippi and was commissioned an armor officer in 1971. He is a graduate of the Armor Officer Basic Course, the Infantry Officer Advanced Course, the United States Army Command and General Staff College, and the United States Naval War College where he earned a Master of Science Degree in National Security and Strategic Studies.

His awards include the Distinguished Service Medal, Silver Star, Legion of Merit (with two Oak Leaf Clusters), Meritorious Service Medal (with six Oak Leaf Clusters), and the Army Commendation Medal (with two Oak Leaf Clusters).

BRIGADIER GENERAL PAUL S. IZZO
PROGRAM EXECUTIVE OFFICER FOR AMMUNITION,
PICATINNY ARSENAL, NEW JERSEY

Born in October 1953, Brigadier General Izzo is a native of Saratoga Springs, New York. He received his commission in 1975 as a Second Lieutenant in Armor following graduation from St. Bonaventure University where he earned a Bachelor Degree in Business Administration. In 1987, he earned a Master Degree in Management Science from Central Michigan University. His military education includes Airborne School, the Armor Officer Basic Course, Armor Advanced Course, Command General Staff College, the Defense Systems Management College, and the U.S. Army War College.

Brigadier General Izzo was named Program Executive Officer of the newly established Program Executive Office Ammunition in January 2002. On 28 May 2004, Brigadier General Izzo also assumed duties as the Commanding General of Picatinny. He previously served as the Deputy for Systems Acquisition, U.S. Army Communications-Electronics Command (CECOM). Other recent assignments include, Project Manager for the Bradley Fighting Vehicle System (BFVS), and Executive Officer to the Military Deputy to the Assistant Secretary of the Army (Research, Development, and Acquisition). Other key assignments were PM for Constructive Simulations at STRICOM, which included developing the concept for WARSIM 2000, Operations Officer for 3-37 Armor, 1st Infantry Division during the Gulf War, Aide de Camp, Bradley and M1A1 Tank Live Fire Test Officer at Aberdeen Proving Ground, MD, Operations Officer and Company Commander 2-37 Armor, 1st Armored Division, Germany, Battalion Maintenance Officer, Tank Company Executive Officer and Tank Platoon Leader, 1st Infantry Division, Fort Riley, Kansas.

Brigadier General Izzo's awards include: the Legion of Merit (2-OLC), the Bronze Star with "V" device and OLC, the Meritorious Service Medal (5-OLC), Army Commendation Medal with OLC, Army Achievement Medal with OLC, Army Staff Badge, Parachute Badge, and various other decorations for Gulf War Service.

Brigadier General Izzo and his wife, Kathleen, have four children, Amy, Paul Jr., Stephen, and Matthew.

U.S. ARMY
FIELD SUPPORT COMMAND

PUBLIC AFFAIRS OFFICE
ROCK ISLAND, ILLINOIS 61299
(309) 782-5421

BRIGADIER GENERAL JAMES W. RAFFERTY
COMMANDING GENERAL
U.S. ARMY JOINT MUNITIONS COMMAND

Brigadier General James W. Rafferty is currently assigned as
ommanding General of U.S. Army Joint Munitions Command
and is scheduled to remain in that position through December
As JMC Commanding General, Brigadier General Rafferty leads
anization that is responsible for the production, storage, issue,
ution, and demilitarization of conventional ammunition for all U.S.
y services. JMC Headquarters is located at Rock Island, Illinois,
e Command operates a nationwide network of ammunition
and defense munitions centers, and maintains a global
ice wherever U.S. combat units are stationed or deployed. In
ry 2005, Brigadier General Rafferty will assume duties as Deputy
ianding General (Individual Mobilization Augmentee) for the U.S.
Field Support Command.

Before coming to JMC Headquarters, Brigadier General
ty served as Assistant Division Commander – Support for the
ivision (Institutional Training), an U.S. Army Reserve unit based
hester, New York. He served over 19 years with the 98th
n and held a number of key leadership and staff positions,
ng Chief of Staff, brigade and battalion commander, internal
officer, and G3 / S3 (Operations) officer. Earlier in his career,
lier General Rafferty served with the 42nd Infantry Division, an Army National Guard unit based in
While with the 42nd Infantry Division, Brigadier General Rafferty served as platoon leader, compa
tive officer, company commander, and assistant battalion S3.

Brigadier General Rafferty was commissioned in 1976 through the Army Officer Candidate Schoo
m. His military education includes the Army War College, Army Command and General Staff Colle
e Infantry Officer Advanced and Basic Courses. He is a *summa cum laude* history graduate of Syr
sity.

BG Rafferty is a Department of the Army civilian employee who serves as the Deputy Director of
ig and Mobilization at Fort Drum, New York. He began his civilian career with the Army in 1974 an
for the Army National Guard, and then for Readiness Group Seneca at Seneca Army Depot in N
efore coming to Fort Drum.

Brigadier General Rafferty's military awards and decorations include the Meritorious Service Med
ak Leaf Clusters; the Army Commendation Medal with three Oak Leaf Clusters; the Army Achieven
the Army Reserve Components Achievement Medal with silver Oak Leaf Cluster; the National De
Medal with one Service Star; the Armed Forces Reserve Medal with Mobilization Device and two
ass Devices; the Army Service Ribbon; and the Air Assault Badge.

Brigadier General Rafferty and his wife, Melanie, have four adult children and reside in upstate N

STATEMENT BY

MAJOR GENERAL BUFFORD C. BLOUNT, III
ASSISTANT DEPUTY CHIEF OF STAFF, G-3
UNITED STATES ARMY
AND
BRIGADIER GENERAL PAUL S. IZZO
PROGRAM EXECUTIVE OFFICER, AMMUNITION
UNITED STATES ARMY
AND
BRIGADIER GENERAL JAMES W. RAFFERTY
DEPUTY COMMANDER, JOINT MUNITIONS COMMAND
UNITED STATES ARMY

Introduction

Chairman Weldon, Congressman Abercrombie, distinguished members of the committee, we appreciate the opportunity, and it is our privilege today to appear before you to discuss the Army's small caliber ammunition programs and the associated industrial base. Since 9-11, our Army has been decisively engaged executing the global war on terrorism at home and abroad.

We have ongoing war fighting operations in Iraq and Afghanistan; Soldier deployments in Bosnia, Kosovo, Korea and Europe; and mobilization operations in the United States. These activities are consuming large quantities of small caliber ammunition and are putting a strain on the associated industrial base. We are here today to discuss the actions we are taking to increase the procurement of ammunition in 5.56mm, 7.62mm and .50 caliber, and to answer your questions on these actions.

Status of War Reserve Stocks for Small Caliber (5.56mm, 7.62mm, .50 caliber) Ammunition

The Army has sufficient small caliber ammunition to conduct current operations. To fight a Major Combat Operation in another theater will require the Army to impose restrictions on training expenditures, and to focus current inventory and new production on combat operations. In small caliber categories this will require adjustments to unit training authorizations and accelerated outsourcing procurement mitigators. The Army's goal is to implement increased weapons training strategies and resource these commitments over time. Ammunition programming over the Program Objective Memorandum (POM) years combined with planned small caliber industrial Facilitization efforts will allow the Army to meet training requirements and rebuild the small caliber inventory. However, the demands of current operations and the possibility of another Major Combat Operation will cause the Army to make tradeoffs between supporting full training requirements and meeting the contingency needs. We are currently in a position to make those tradeoffs without seriously impacting either training or contingency operations.

Current and Future Requirements

As the Chief of Staff-directed weapons training strategies are completely phased in, the Service's annual small caliber ammunition requirements will grow to approximately 1.5 to 1.7 billion rounds per year. This number includes other Service requirements which the Army buys in its role as the DOD Single Manager for Conventional Ammunition. Additionally, the Army is responsible for maintaining the industrial base for conventional ammunition supplied to other Services along with supporting allied nations through Foreign Military Sales.

By the end of the POM period, Army requirements should stabilize between 1.3 and 1.5 billion rounds per year. This sustainment plateau is expected due to the diminished intensity of the Global War on Terrorism (GWOT) and replenishment of war reserve inventories.

The principal driver of the total small caliber munitions requirement is training. Small caliber training ammunition accounts for 75% – 80% of the total Service small caliber requirement. The projected expenditure for current operations accounts for only a small percentage of the total requirement. Following the attacks of September 11, 2001, the former Chief of Staff of the Army directed a comprehensive review of the Army's weapons training strategies in preparation for combat. As a result, Army small caliber requirements increased significantly. Expenditure rates, which historically have not achieved the number of rounds identified as the full requirement (for a host of reasons), are expected to increase as Army units hone their war fighting skills across combat, combat support, and combat service support formations.

Experienced and Projected Expenditures

The Army continues to support the Global War on Terrorism with small caliber ammunition. Estimated expenditures for Operation Enduring Freedom (Oct 01 thru May 04) total 21M rounds of all types of small caliber ammunition. Estimated expenditures for Operation Iraqi Freedom (Mar 03 thru May 04) total 72M rounds of all types of small caliber ammunition. Though a portion of those expenditures have been consumed in sustainment training, the bulk was consumed in combat operations. For the foreseeable future, the Army projects that in-theater consumption will remain constant at approximately 5.5M rounds per month to support theater combat operations and sustainment training.

Small Caliber Ammunition Program

Since 9/11 the Army has adjusted its priorities to support the GWOT. With respect to small caliber ammunition, this change in priorities includes the training necessary to ensure that deploying units are proficient with individual and crew-served weapons. It also covers projections of operational expenditures, which have exceeded initial projections. The Army plans to use supplemental funding to replenish those expended inventories.

The Army's production program for small caliber ammunition is comprised of numerous types and quantities of rounds. The primary calibers are 5.56mm, 7.62mm and .50 caliber ammo. Variations within calibers include ball, tracer, linked and unlinked, armor-piercing and blank rounds to support the various types of training and operational needs that the Army has or anticipates. The small caliber program supports scheduled annual training, mobilization training, and operational requirements. The Army recently approved new training strategies that will go into effect in FY05 that significantly increase ammunition requirements for individual and crew served weapons that use small caliber ammunition. The FY05-09 budget reflects those increased requirements. Operational expenditures in support of Operation Enduring Freedom, Operation Iraqi Freedom, Operation Joint Forge and Operation Joint Guardian were not known at the time the FY 04/05 program positions were established.

In order to increase production above what was programmed for training, the Army applied supplemental funding to the small caliber programs to reach the required levels. The Army has also taken steps to ensure that production levels are maintained by prioritizing small caliber programs in the FY06-11 POM. Additional dollars will be required from supplemental funding in order to replenish operational expenditures in a timely manner and rebuild the Army's war reserve inventories. We will be asking Congress for help with supplemental funding to execute this strategy.

Acquisition strategy (Current and Future)

The Army has addressed the near-term inventory trends of small caliber ammunition by increasing the production rate at Lake City Army Ammunition Plant (LCAAP). This is the sole Government Owned, Contractor Operated (GOCO) small caliber production facility within DOD. We have also expanded our procurement contracts with private industry. These actions give the Army more flexibility to manage production and inventory against known requirements and expenditures. It also provides the first steps toward facilitating an expanded surge capacity in the industrial base.

The PEO Ammunition has instituted several actions to increase Lake City's capacity to 1.5B rounds per year. In July 2004, actual production at the Lake City plant is expected to achieve an annual rate of 1.2B rounds per year.

In addition to the GOCO production, the Army has procured ammunition from other sources. The Army conducted worldwide market surveys seeking sources capable of producing Small Caliber Military Specification ammunition within the urgent delivery schedules. Contracts were awarded to companies that had the capability to deliver in the required timeframe and meet the mil spec for the ammunition. To date, US companies that responded to the market surveys that could meet the mil spec and delivery schedules, got contracts. To fulfill the urgent requirement for ammunition, some contracts have been awarded to foreign sources. The Army is under contract for 5.56mm and 7.62mm ammunition from Olin-Winchester and Israel Military Industries (IMI). Another contract for 7.62mm ammunition is in final negotiations. The Army has now begun acceptance of 5.56mm ammunition from Olin and IMI following their first deliveries last month. Additionally, to meet very near term requirements, the Army is purchasing from UK Ministry of Defense (MOD) stocks, a quantity of 5.56mm and 7.62mm ammunition. This will provide a buffer against immediate ammunition requirements.

Beginning in FY 05, the Army will employ a systems integration contractor to develop secondary sources for small caliber procurements. This strategy offers at least three intuitive advantages from a military perspective: (1) a reliable network of commercial second sources could provide for a portion of the Service's small caliber requirements at commercially competitive prices; (2) the relief of burden on Lake City capacity allows for a government-owned surge capacity; and (3) the nature of a well developed set of geographically distributed commercial facilities is a hedge against the potential disruption in production caused by natural disaster or terrorist action.

Summary

The Army believes it is accepting minimal risk with its small arms strategy. While there is a current gap between the total annual requirement and the available inventory in small arms, it does not impact on current operations or our ability to ramp-up to a Major Combat Operation. The Army has expanded Lake City production requirements from approximately 300 million rounds in 1999 to nearly 1.2 billion rounds by July 2004. In the near-term, balancing training requirements with current operational needs is a manageable risk mitigation strategy. The Army does not want to repeat its history of building capacity during wartime only to dismantle the capacity in peacetime. It is costly to create excess organic capacity. Thus, the Army desires to leverage commercial industry to meet short-term requirements to fill the gap between our organic base and current needs.

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

STATEMENT OF

KAREN B. DAVIES

PRESIDENT

ALLIANT LAKE CITY SMALL CALIBER AMMUNITION COMPANY

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES

ON

24 JUNE 2004

CONCERNING

SMALL CALIBER AMMUNITION

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

Statement of Karen B. Davies
President, Alliant Lake City Small Caliber Ammunition Company
Before the
Subcommittee on Tactical Air and Land Forces
Committee on Armed Services
U.S. House of Representatives
June 24, 2004

Mr. Chairman and distinguished Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss small caliber ammunition production and operations at the U.S. Army's Lake City Army Ammunition Plant (Lake City).

I am Karen Davies, the president of Alliant Lake City Small Caliber Ammunition Company, a position I have held since April 2002. ATK (Alliant Techsystems) competed for and won the contract to supply the U.S. Armed Forces with all of its 5.56mm, 7.62mm, and .50 Caliber ammunition requirements beginning in April 2000. As a part of that award, ATK is responsible for operation of Lake City. Since we took over management of the plant, we have worked closely with the Army to bring production up to the levels we are now achieving. We are continuing to increase production at Lake City in order to meet additional requirements.

When ATK became the operator of Lake City a little over 4 years ago, the plant was producing approximately 350 million rounds of small caliber ammunition a year. Requirements and production had steadily declined following the end of the Cold War and downsizing of the military in the 1990's. Those reductions drove decisions to close buildings and mothball equipment to reduce operating costs. In the last four years, ATK has nearly quadrupled the plant's production, and in 2004, we will produce in excess of 1.2 billion rounds of small caliber ammunition at Lake City. This success is the result of the Army's late 1990's acquisition strategy focused on incentivizing industry through a long-term contract with the transfer of risk and return to the contractor, as well as ATK's commitment to meeting the Army's requirements. It is a model of government/industry partnership that has reduced the price of each round of ammunition, saving the taxpayer $300 million during the first five years of ATK's contract.

An excellent example of how ATK and the Army have worked together to increase deliveries while ensuring the highest quality ammunition for our troops is 5.56mm production. 5.56mm is the primary round for our soldiers and is used in the M16 and M4 rifles as well as other gun systems. The best available forecast at the time the contract was awarded in 2000 called for 370 million rounds a year. Today, we are producing more than 1 billion 5.56mm rounds per year, with capability to increase that quantity if needed.

We have achieved this growth through a strong partnership with the Army and support from Congress. Both the Army and ATK have invested capital and resources in Lake City to meet the military's growing needs. We have used modernization funding specifically designated for such purposes by this Subcommittee and Congress. We have reactivated buildings, brought equipment out of layaway, purchased new equipment, repaired and rebuilt the infrastructure of the plant, brought on new suppliers, revitalized preventative maintenance, established strong floor management tools, and most importantly, added and trained people to do the work.

When ATK began operating the plant in April 2000, the facility employed a total of 650 people. We have since hired more than 1300 people, bringing today's headcount to 1950. In addition to the people in the factory who are making and testing the ammunition and maintaining the equipment, we have hired skilled engineers and management professionals who are running the plant, documenting and improving the manufacturing and maintenance processes, and managing the supply base. We have instituted both Six Sigma and lean manufacturing disciplines to improve the operation of the plant, and we have hired several manufacturing and maintenance consultants who have helped us implement best practices.

ATK manages 1800 suppliers who deliver materials to Lake City, working almost exclusively within the U.S. industrial base, to meet the increased need for ammunition. We have only four non-domestic suppliers, one of which is Canadian. We've successfully qualified 34 new suppliers to reduce risk and produce increased quantities. In other businesses within the corporation, ATK manufactures ammunition for law enforcement, homeland defense, and sport shooting enthusiasts. Together with our two sister commercial ammunition businesses (Federal Cartridge and CCI/Speer), we manage materials and supplies which are common to both commercial and military ammunition. Proactive management of the supply base is critical and requires constant attention, particularly with various capacity issues and current world economic conditions which impact availability of key raw materials such as steel, copper, and lead.

As the largest manufacturer of small caliber ammunition in the world, ATK is uniquely positioned to understand the entire landscape of the industrial base and manage it accordingly. One example was the near crisis in the supply of steel links used to belt ammunition for use in automatic weapons. Two suppliers manufactured links during the 1990's. The combination of reduced procurements and the inability to economically upgrade their aging operating equipment resulted in one supplier exiting the business in

2001 and the other announcing their intent to exit, leaving the small and medium caliber ammunition industry without a U.S. mil-spec link supplier.

The Army and ATK proactively worked toward a solution that resulted in ATK agreeing to purchase one supplier's business to prevent further shortages of this key component. The links manufacturing operation was relocated to Lake City under the ARMS (Armament Retooling and Manufacturing Support) program. ATK began operating the business in October 2001. Over the next year, ATK and the Army rebuilt the links supply base. This included reverse engineering of inadequately documented designs, redesign of poorly maintained and poorly controlled equipment, establishment of tool and die capability to support ongoing production, and hiring and training of a links manufacturing team. Our links operation is now healthy, and has the capability and capacity to support the expected requirement surge.

Lake City Capacity

I would like to address what has been a misnomer in many of the national stories reporting on the "shortage of capacity" for small caliber ammunition. I suspect it is part of the reason we are here today, and I want to emphasize that ATK is ready, willing, and able to increase production at Lake City, or elsewhere, in support of emerging small caliber requirements.

ATK Lake City is currently producing at a rate of 1.2 billion rounds per year. The 1.2 billion is often incorrectly referred to as the capacity of Lake City. Actually, the 1.2 billion figure is a result of a pricing arrangement in the Army/ATK contract. The specific mix of rounds required by the Army also impacts the total quantity that can be produced. As our workforce gains experience and our investments in improved management controls and enhanced preventative maintenance mature, we continue to improve output of the plant. We are confident that we can exceed the 1.2 billion round production rate in support of the Army's future requirements.

We can very quickly increase wartime output at Lake City from today's 1.2 billion round rate to 1.35 billion by staffing equipment already on the factory floor to a five-day-per-week, 24-hour operation. This is achievable within 6 to 12 months. In addition, we are working with the Army to execute relatively minor expansion activities that allow us to increase output within the basic footprint of the currently active operating buildings. This will provide full annual delivery capability of 1.5 billion rounds by March 2006. This provides very affordable surge capability.

ATK is aware of the Army's acquisition strategy for the next several years' potential surge to 2 billion rounds per year. We will respond to the Army's RFP for a system integrator who could provide up to 300 million rounds per year manufactured at locations other than Lake City. We will draw on other ATK-owned ammunition facilities, as well as other sources, to support this need. In addition, we are estimating the schedule and cost of bringing Lake City capability to 2 billion rounds per year for evaluation by the Army should they desire a backup to the current acquisition strategy.

These volumes are not without precedent. Lake City produced in excess of 2 billion rounds per year during World War II and Vietnam, and the plant produced 1.5 billion rounds a year during the Korean conflict. Although some of the equipment and one of the buildings used during those eras would need to be modernized and/or replaced to reach a full 2 billion rounds, the plant still has the basic infrastructure required to deliver to those rates.

Modernization

Before I conclude, I would like to add some thoughts on the issue of modernization. Independent of the next few years increased need for ammunition, the equipment at Lake City is in need of modernization. The majority of equipment used to make 7.62mm and Cal. .50 originated in the 1940's. The process is heavily operator-dependent, and the equipment has little flexibility to shift between calibers. The primer factory is very labor intensive, with limited automation in either the manufacture or inspection of the primers. The 5.56mm equipment is somewhat newer and more automated. It was updated in the late 1970's, and it remains the workhorse of the plant in terms of volume. However, the equipment uses a 1980's vintage computer control system, and it is increasingly difficult to find spare electronic parts.

Modernization at Lake City is the most cost effective way to insure adequate supplies of mil-spec ammunition to our Armed Forces in the future. Were one to consider establishing a manufacturing location other than Lake City, we estimate that infrastructure alone would cost approximately $400 million and would require several years to permit, prepare, design, and build. This is in addition to the cost of equipment and process improvement that must be accomplished regardless of the plant's location.

The help provided by Congress the past two years has allowed critical modernization efforts at Lake City to begin. Important steps to improve the quality and reliability of small caliber ammunition have already been accomplished. The action taken thus far by the defense oversight committees on the FY2005 defense budget recognizes the importance of continuing these efforts and helping to insure that Lake City will be able to meet the small caliber ammunition requirements of the Armed Forces, not only now, but also in the future.

Conclusion

All of us at ATK are extremely proud to supply our Armed Forces with the advanced weapons and ammunition they need to fight the global war on terrorism. We are particularly proud to have partnered with the Army to play an instrumental role in restoring the small caliber industrial base. I want to assure this Subcommittee of our commitment to providing the nation's war fighters with the highest quality small caliber ammunition. I would be pleased to respond to any questions you may have.

STATEMENT BY

MR. RICHARD G. PALASCHAK

DIRECTOR OF OPERATIONS

MUNITIONS INDUSTRIAL BASE TASK FORCE

BEFORE THE

HOUSE COMMITTEE ON ARMED SERVICES

TACTICAL AIR AND LAND FORCES SUBCOMMITTEE

JUNE 24, 2004

STATEMENT OF

MR. RICHARD G. PALASCHAK

DIRECTOR OF OPERATIONS
MUNITIONS INDUSTRIAL BASE TASK FORCE

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you. I am here as the Director of Operations for the Munitions Industrial Base Task Force, a non-profit trade association of 18 companies representing a substantial cross section of our nation's munitions industry. This Task Force was formed in 1993 to pursue a common – and what we believe to be a valid national strategic goal: to advocate the adequate funding and policies required to sustain a responsive, efficient U.S. munitions industrial base capable of developing, producing and providing superior munitions for the U.S. and its allies. While today's hearing is focused on small caliber ammunition and the associated national and technology industrial base, the impacts resulting from the nation's national security strategy, funding, and policy decisions affect all ammunition sectors. Accordingly, many of my comments today will address the common conditions arising in our industry from those decisions and then provide more specific information relative to small caliber ammunition.

Requirements for small caliber ammunition are comprised of two major components – training of individuals and units, and those inventories needed to support our armed forces in war. Those requirements are dictated by force size, the training strategies used to maintain the readiness of that force, and the overall strategy for ensuring our national security. Prior to the end of the cold war our military relied upon large inventories of munitions combined with an orchestrated mobilization of an industrial base comprised of government-owned ammunition manufacturing plants and a group of proven, privately owned companies. These aggregate production capabilities were referred to as the Restricted Specified Base, commonly known as the RSB. Virtually all procurements for ammunition were sourced from that RSB. For example, during the Vietnam War, small caliber ammunition was manufactured by a combination of two government owned, contractor operated ammunition plants, that satisfied the great majority of our requirements, along with smaller, but still significant, quantities from a U.S. owned arsenal and several privately owned ammunition manufacturing facilities. Underpinning all of these capabilities were numerous privately owned subcontractors that provided necessary material and components.

The end of the cold war triggered a major change in our national security strategy from a global war scenario to one of fighting two major regional conflicts. Concurrently, DOD abandoned its industrial mobilization strategy and replaced it with a strategy of fighting from inventory and replenishing expended stocks within a specified period of time. DOD subsequently eliminated any time limitations for replenishing expenditures. Today, there is no DOD guidance based upon quantitative, analytical measures for the retention of unutilized equipment. The end of the cold war also caused a concomitant reduction in military force structure and, not surprisingly, in ammunition war reserve requirements. For example, the Army's overall munitions war reserve requirements were reduced by nearly 75%. Interestingly, their small caliber ammunition requirements were only reduced by about 35%, which closely mirrored the percent reduction in force structure. In the period following the end of the cold war, several other decisions were made that would limit the ability of our industrial base to surge production. In the constrained budget environment during the '90's, military leaders and resource managers looked for ways to reduce the amount of funds tied up in munitions inventories. For example, the days of supply in the pipeline for training unique ammunition were reduced. Specific to small caliber ammunition, the Army made a conscious decision to only buy about 50% of its war reserves because they concluded that production lines at Lake City Army Ammunition Plant could rapidly respond to any increased demands. DOD munitions procurement budgets underwent draconian reductions as the services relied upon stocks built up during the cold war to support annual training and war reserve requirements. A major effort was undertaken to drastically reduce funding for Production Base Support in our government owned plants, to dispose of "unneeded" production equipment and facilities throughout the base, and to reduce the operating footprint at ammo plants and privately owned facilities by consolidating operations. As a consequence of these actions, the overall capacity of the industrial base was drastically diminished, much of the remaining idle equipment and facilities were not adequately maintained, and modernization or upgrading of capabilities was a low priority.

The recent demands for increased small caliber ammunition production resulting from our nation's ongoing wars in Afghanistan and Iraq, as well as a major change in individual weapon training requirements in the Army, have highlighted the shortcomings in our production base that evolved during this period. When the increased requirements for 5.56mm, 7.62mm and caliber 0.50 cartridges surfaced, all of the DOD's needs for these rounds, with the exception of some small quantities of specialty rounds, were being produced at Lake City Army Ammunition Plant. Lake City is the sole remaining government owned small caliber ammunition plant. It is the key and essential U.S. national capability for the manufacture of small caliber ammunition in existence today. No other facility in the free world possesses the enormous production capacity still resident at Lake City. In order to put today's demands for Lake City's products in some context, I want to recount some historical production figures. During the four years of WWII, Lake City produced over 6 billion rounds, or an average of about 1.5B cartridges per year. During the Korean War it produced about 1.2B cartridges per year. During the Vietnam War the maximum annual production was 2.2B cartridges. Lake City is currently producing at a rate of about 1.2B cartridges per year. As I noted earlier, during the Vietnam War, privately owned companies manufactured significant quantities of small caliber ammunition to supplement the production coming from the government owned facilities. During the defense build up of the 1980's, private industry was again asked to produce significant quantities of small caliber ammunition in tandem with the ongoing production at Lake City. An acquisition strategy that engages private industry's capabilities to supplement Lake City's capabilities has both historical precedents and provides insurance against some future change in requirements. It also provides a relief valve as Lake City modernizes its production capabilities and expands both its capacity and its workforce. The commercial production capability available in the national technology and industrial base today cannot meet the maximum annual quantity needed from it, as projected by the Single Manager for Conventional Ammunition. With modest investments that capability could be more than doubled within a year but would still be less than the maximum quantity that might be requested. Therefore, a prudent enhancement of commercial capabilities in addition to the expansion of Lake City's capacity is needed. Private industry has indicated a willingness to invest in the expansion of their production capacity for U.S. military ammunition under the envisioned acquisition approach. However, without some assurance of a return on their investment, even a modest investment would be a difficult decision for private industry when the government's proposed acquisition strategy offers no minimum annual production. Unfortunately, because of the current shortfalls of small caliber ammunition, combined with past DOD decisions that reduced the capacity and responsiveness of the national technology and industrial base for that ammunition, the DOD has utilized existing off-shore production capabilities of a close ally to satisfy a portion of DOD's near term requirements. While Lake City is capable of some additional production above current rates within 6-12 months, it may be necessary to further utilize some off-shore capabilities in the near term to meet DOD's increased requirements for small caliber ammunition. Off-shore production should not be necessary, nor should it be an option, after additional capacity is put in place at Lake City and in the other members of the national technology and industrial base.

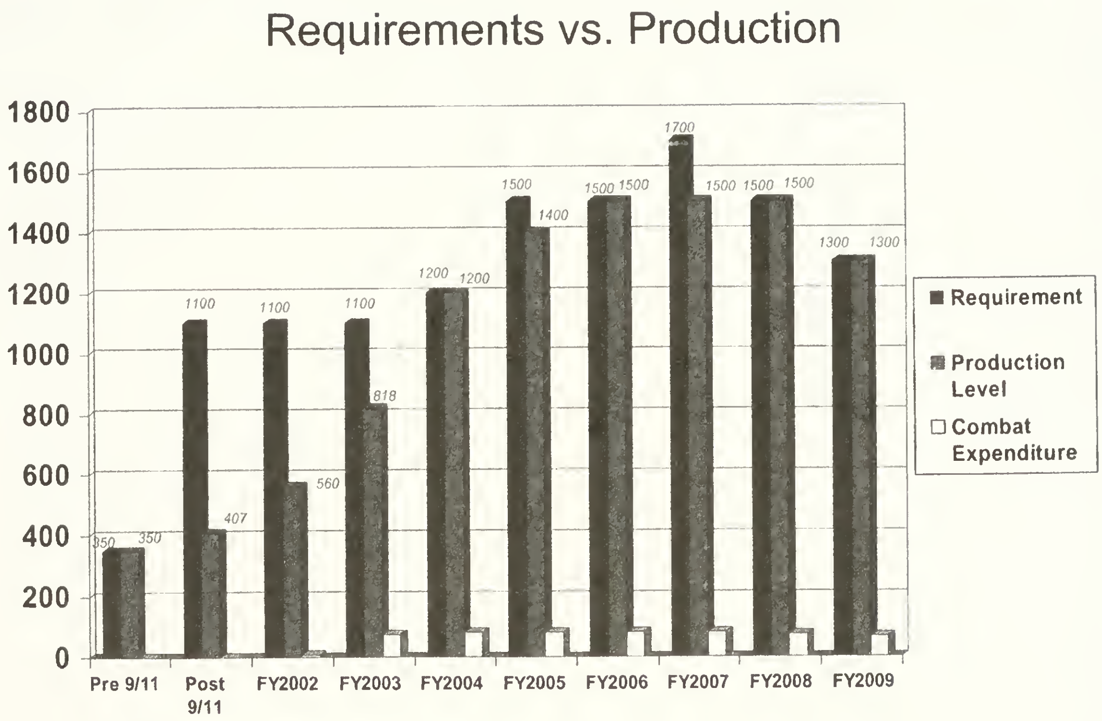
While there is a substantial dependency on foreign sources for material and components for much of our nation's munitions, small caliber ammunition has few such dependencies. However, while there is a domestic source for gilding metal clad steel, which is required for some small caliber bullets, it is only available in sufficient quantities and acceptable quality today from an off-shore source in Germany. I am personally unaware of any other manufactured material needed for the required small caliber rounds that is only available from off-shore sources.

This afternoon, I've presented an assessment of the small caliber ammunition production capabilities available to satisfy this nation's requirements for these cartridges. In doing this I've considered the competing interests of the companies within the national technology and industrial base, the serious shortfalls of small caliber ammunition confronting this industry's government customers, and the strong support that the House Armed Services Committee has provided to our industry over many years. It has been a challenge. I've provided the best available information to the Committee, knowing full well that much of that information does not comport with everyone's interests. While I am here representing our industry, I assure you that my primary focus is to most assuredly meet the needs of our military. It is in that context that I hope and trust that you will consider my testimony today.

Thank you for your attention and the opportunity to address the Subcommittee.

DOCUMENTS SUBMITTED FOR THE RECORD

JUNE 24, 2004


Requirements vs. Production
1800
1600
1400
1200
1000
800
600
400
200
0
350
350
1100
407
1100
560
1100
818
1200
1200
1500
1400
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1700
1500
1500
1500
1300
1300
Pre 9/11
Post 9/11
FY2002
FY2003
FY2004
FY2005
FY2006
FY2007
FY2008
FY2009
■ Requirement
▨ Production Level
☐ Combat Expenditure

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

JUNE 24, 2004

QUESTIONS SUBMITTED BY MR. WELDON

Mr. WELDON. When we provide ammunition for our allies, do they reimburse us at all for any part of the cost of that ammunition?

General BLOUNT. The U.S. Army is prohibited from providing free ammunition to our allies. The transfer has to occur either: through an Allied Cross Servicing Agreement (ACSA) where they reimburse us either in kind, in value or through services; or through a Foreign Military Sales (FMS) contract.

The U.S. Army uses an Allied Cross Servicing Agreement (ACSA) to negotiate reimbursement when it conducts materiel exchanges with allies. The U.S. Army safety rules and material release process does not allow ammunition that has not been safety tested to be used in U.S. Army weapons.

Mr. WELDON. For the period 2000 through 2009, please provide the total Department of Defense requirements for small-caliber ammunition by type for each military service, command, or organization.

General BLOUNT. Single Manager for Conventional Ammunition (SMCA) small-caliber ammunition procurements and funded requirements for fiscal years 2000 through 2009 are shown on the following chart. Quantities are shown in millions of cartridges and also include quantities derived from DERF and supplemental funding sources.

Single Manager for Conventional Ammunition (SMCA) Small-Caliber Ammunition Procurements and Funded Requirements for Fiscal Years 2000 Through 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Army 5.56mm	359.5	598.5	314.8	802.5	908.9	899.9	547.7	1024.0	1130.3	1119.5
7.62mm	10.2	22.9	37.6	131.4	139.5	195.8	183.3	267.4	282.5	301.2
.50 CAL	10.7	6.4	14.6	57.8	39.6	63.5	45.2	53.4	57.1	57.3
Navy 5.56mm	18.2	18.3	21.3	12.1	17.2	9.8	14.0	10.9	11.2	8.8
7.62mm	8.5	12.8	9.4	17.6	14.9	8.5	13.7	6.7	7.8	10.1
.50 cal	0.9	3.5	3.0	4.0	13.6	1.6	11.6	2.7	20.	3 6
Marines 5.56mm	155.4	118.5	61.6	214.1	112.6	110.2	131.3	99.0	102.6	106.6
7.62mm	11.8	11.0	15.2	13.3	15.6	12.7	13.8	13.8	14.7	20.3
.50 cal	5.4	4.0	2.7	5.4	4.0	0.7	5.1	6.7	6.4	6.5
Air Force 5.56mm	44.4	49.5	35.0	47.5	30.1	25.9	24.3	30.7	39.2	28.8
7.62mm	0.2		20.2	47.0	20.8	21.2	22.0	24.4	32.6	34.5
.50 cal	1.6	0.7	1.4	1.8	1.1	2.5	1.1	1.6	1.0	2.6
Other[1] 5.56mm	6.0	5.4	12.3	5.1	15.7	2.2				
7.62mm	9.0	3.4	5.3	26.2	17.9	0.4	0.7[2]	0.5[2]	0.4[2]	0.5[2]
.50 cal	1.2	1.0	1.0	0.3	0.9	0.1	0.9[2]	0.7[2]	0.6[2]	0.4[2]
FMS[3] 5.56mm	42.7	15.4	18.0	15.4	15.7	1.5				
7.62mm	7.4	0.5	4.4	5.3	3.9	2.9				
.50 cal	0.5	0.0	0.0	3.2	0.0	0.5				

Single Manager for Conventional Ammunition (SMCA) Small-Caliber Ammunition Procurements and Funded Requirements for Fiscal Years 2000 Through 2009—Continued

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total[4] 5.56mm	626.2	805.5	463.0	1096.7	1100.3	1049.5	717.4	1164.6	1283.3	1263.7
7.62mm	47.2	50.7	92.2	240.7	212.6	241.4	233.5	312.9	338.1	336.6
.50 cal	20.4	15.7	22.6	72.5	59.3	68.9	64.0	65.1	67.0	70.4

* FMS—Foreign Military Sales.

Mr. Weldon. If the DOD requirement for small-caliber ammunition is 1.5-1.7 billion rounds per year, why are Army "sources" briefing the media (Inside the Army, May 31; Houston Chronicle, June 10; UPI, June 10) and Army staff briefing congressional staff (June 18, 2004) that the plan is to increase "production" to two billion rounds per year?

General Blount. Current DoD small-caliber ammunition requirements in the Future Years Defense Plan stabilize at about 1.5 to 1.7 billion rounds per year. The Army's response for increasing production of small-caliber ammunition included plans to produce up to two billion rounds per year, but only if required. At this time, the additional production of 300 million rounds per year is not required.

Mr. Weldon. Please describe the timeline and plan to meet General Shinseki's guidance for a new training qualification strategy. Are all Army personnel currently being trained per his guidance? What analytical basis is there for the new training program?

General Blount. General Shinseki directed the new training qualification strategy in late-2001. The Army revised its weapons training strategies in 2002 and built the requirements into the FY04-09 POM. It began officially executing the new strategies in FY05. All active-component personnel currently are being trained per General Shinseki's guidance. General Shinseki directed the Army to analyze whether its strategies were training the right people, to the right level, and on the correct tasks. The analysis concluded that the Army strategy was a Cold War construct that deferred much training until units were alerted to deploy; that resourced a few Soldiers robustly while minimally resourcing others; and that was built around fiscal constraints rather than doctrine.

Mr. Weldon. For the period 2000 through 2009, please provide the total Department of Defense actual/projected expenditures of small-caliber ammunition by type for each military service, command and organization. Please show whether expenditures are for training/exercises or the Global War on Terrorism (GWOT). For the GWOT, please show which theater and indicate where rounds are for other than U.S. forces.

General Blount. The Army does not track ammunition expenditures for other military services. Army small-caliber ammunition expenditures for fiscal years 2000 through 2009 are shown on the following charts. The first chart depicts the Army small-caliber ammunition actual/projected expenditures for training. The second chart depicts the Army small-caliber actual/projected expenditures in support of GWOT. Quantities are shown in millions of cartridges.

Training	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Army										
5.56mm	266	274	291	284	363	706	857	878	885	886
7.62mm	53	55	55	50	48	152	216	221	222	222
.50 cal	13	13	15	16	21	41	53	54	54	54

GWOT	**2001-Present**	**2005**	**2006**	**2007**	**2008**	**2009**
Army						
5.56mm	81	50	45	35	25	12
7.62mm	23	15	14	11	8	4
.50 cal	10	6	5	4	3	1

Mr. Weldon. Please provide cost and quantity data on all purchases (contracts let) of small-caliber ammunition, by type, from sources other than Lake City for the 2003-2004 period.

General Izzo.

Type	Quantity	FY03-FY04 Hardware Dollars
5.56mm	262,687,037	$54,576,605.27*
7.62mm	153,318,057	$72,947,767.12
.50 caliber	34,155,120	$96,807,713.23
9mm	115,068,500	$10,406,485.85
Items Less Than $5M	4,746,040	$1,316,517.00

* Dollars in million (M)

It should be noted that the above includes miscellaneous buys that were not part of the urgent acquisitions. These buys include 5.56mm/7.62mm Armor Piercing Rounds, 7.62mm SRTA and .50 Cal SLAP Cartridges.

Mr. WELDON. Please provide the scope of work required to upgrade Lake City to a modern facility and the estimated costs to do so. What minimum upgrades are required to preclude production shortfalls due to the failure of outdated equipment or otherwise preventable accidents.

General IZZO. The Lake City Army Ammunition Plant (LCAAP), located in Independence, Missouri, was built in the early 1940s and is the largest supplier of small-caliber ammunition to the United States Armed Forces. Lake City modernization investment since the 1970s has been minimal. Increasing demand for small-caliber ammunition, 400 million per year to over 1,200 million per year, has placed an ever-increasing burden on these already aged facilities. Although deliveries are being met, the risk for moderate or catastrophic failure has increased dramatically. A modernization effort has been planned to refurbish worn yet operational equipment, replace antiquated machinery, and revamp select processes to streamline production. The high-speed production equipment for 5.56mm ammunition is a key part of the production base and will be mechanically refurbished and all electronic controls upgraded to current programmable logic controllers. For 7.62mm and .50 caliber ammunition production, modernization will consist of refurbishment and purchase of new loaders with integrated inspection systems. All calibers will receive modern handling systems and packaging upgrades. This modification effort will be accomplished with minimal change in the production area footprint.

The planned outcome maintains current ammunition deliveries to support the war fighter needs while improvements are implemented and installed. It is estimated to cost $242 million and will also be executed over a five-year timeframe if funded.

Mr. WELDON. Please detail where the Department of Defense (DoD) is dependent on a single source for the provision of materials or parts for small-caliber ammunition. Please indicate where this is a non-United States source. Also, please provide the DoD acquisition policy with regard to dependency on single sources of materials for small-caliber ammunition.

General IZZO. Small-caliber ammunition is procured as end-item cartridges through system contractors, who are responsible for establishing make-or-buy decisions and selecting subcontractors. Currently, Alliant Techsystems, the system contractor responsible for operating LCAAP, the facility where the majority of small-caliber ammunition is produced, procures the following material from subcontractors:

- Propellant from General Dynamics' St. Marks, Florida, propellant facility.
- Brass cups (bullet and cartridge case raw material) from Olin Corporation, Marion, Illinois, and other vendors.

The remaining materials and components required are manufactured at the Lake City facility, including ammunition links, bullets, and primers. The only material vendor specified by the Army is St. Marks Powder for 5.56 millimeter (mm) ball propellant and some 7.62mm ball propellant. Other 7.62mm and .50 caliber cartridges have an alternative propellant identified in the technical data package (TDP). Packaging containers are currently procured from Bway Corporation, Atlanta, Georgia. Plans are being established to qualify additional sources for end-item cartridges and a second packaging container source to support increased production requirements.

Some specialty items, including 5.56mm Armor Piercing M995 cartridges, 7.62mm Armor Piercing M993 cartridges, and .50 caliber MK211 Armor Piercing Incendiary cartridges are procured from Nordic Ammunition Corporation (Norway/Sweden). There is also some Short Range Training Ammunition (SRTA) that is procured from SNC Corporation, Quebec, Canada.

There is no formal Department of Defense (DoD) policy regarding dependency on single sources of material for small-caliber ammunition. The emphasis is on procurement of the end-item cartridges using a system contractor to manage subcontractors. As production quantities and requirements increase, establishment of alternate sources for initially end-item cartridges and ultimately, sole source components, will be addressed on an as-needed basis.

Mr. WELDON. What plans are there to reduce from approximately 350, the number types of ammunition procured by DoD?

General IZZO. The Single Manager for Conventional Ammunition is procuring a total of 70 different small-caliber ammunition items between fiscal year 2003 (FY03) and FY11 for the Army and other Armed Services as identified in the FY06 President's Budget. The Army is continually reviewing the different configurations of ammunition being procured in order to ensure that all programs are relevant to training or operational requirements and not redundant to alternative substitutes. New configurations that are being introduced such as SRTA and Special Effects Small Arms Marking System support new and safer training methods or to reduce other training costs (SRTA reduces damage to buildings in urban operations training sites). In addition, older round configurations are not being re-procured, but are being slowly eliminated thru expenditure attrition. While no specific goal has been established identifying a "proper" number of different ammunition configurations used by DoD, the material development/acquisition, logistics, and requirements communities routinely meet together to discuss common issues, one of which is the management of the quantity of different types of ammunition. The preference is to minimize the number of Department of Defense Identification Codes (DODICs).

Mr. WELDON. What plans are there to adapt Department of Defense procurement of ammunition that is common to non-government rounds? What are the most significant restraints in commercial-military integration of small-caliber round material, component, and round production?

General IZZO. There are no current plans to adapt requirements, quantities or performance to permit the procurement of commercially manufactured ammunition for military use. The Army continues to pursue manufacturers capable of meeting all United States TDP requirements including performance, material composition, dimensional, and quality provisions in order to provide the soldier with ammunition that will function reliably in each caliber family of United States weapons.

Small-caliber ammunition commodities are used across multiple weapon systems. For example, a 5.56mm, M855 Ball cartridge can be used by a soldier (in training or combat) using any of the 5.56mm family of weapons including the M16A2 rifle, M249 Squad Automatic Weapon, or the M4 carbine. Many weapons have their own unique operating characteristics and their end performance can be influenced by many factors including type of propellant, pressure, and bullet design. The United States small arms weapons have been developed around the current ammunition inventory. In all likelihood, use of commercial ammunition would require a significant amount of restrictions, particular to each vendor, either to a specific weapon (i.e., it could be used in the M16A2 but not in the M249), or to a particular use (i.e., training only).

While the above discussion is general, there are several features unique to military ammunition that is not implemented by the commercial industry. These include:

- Repeated and ensured performance at extreme temperatures (-65F and +125F).
- Waterproofing to ensure long-term storage and prevent performance problems from moisture encroachment.
- Function and casualty in all weapons at all temperatures.
- Staked primers to prevent primer setback/fall-out during automatic feeding in linked configurations.
- Barrel erosion requirements for many designs that require several thousands of rounds to be fired thru multiple barrels at time of qualification.
- Configurations that include tracer ammunition for nighttime use and to provide line of sight during firing (commercial industry does not have tracer capability).
- Ammunition that is NATO qualified must be submitted by the fielding nation, must meet all NATO requirements, be formally accepted as a NATO design, and must success fully pass periodic NATO testing while in production.
- Designs that are intended for use against light armor (body and vehicle).

Overcoming these issues is not totally insurmountable. However, a significant amount of development, testing, time and cost would be incurred to modify and qualify each vendor's designs and to certify against both United States and NATO requirements.

Mr. WELDON. Please detail instances where shortages have occurred or had to be prevented because of logistical problems. What is the normal transport mode for providing small-caliber rounds outside the U.S.? On how many occasions try 2003 and 2004 has other than the normal mode of transportation been used and why? What are the cost differences between normal mode and air, by theater? Please detail.

General Rafferty. The preferred transport mode is to ship small-caliber rounds outside the U.S. via U.S. Flag over-ocean vessels. To meet urgent delivery requirements airlift is used as necessary.

Listed below are the percentages, tonnage, and average cost for the OCONUS movement of small arms ammunition to SWA:

FY03 - Airlift

58 Tons shipped at an average cost per ton of $11,927.00 (0.9% of small arms movement)

FY03 - Sealift

6611 Tons shipped at an average cost per ton of $680.00 (99.1% of small arms movement)

FY04 - Airlift

460 Tons shipped at an average cost per ton of $11,445.00 (4% of small arms movement)

FY04 - Sealift

9861 Tons shipped at an average cost per ton of $500.00 (96% of small arms movement)

Mr. Weldon. With an inventory of 1 billion rounds and a production rate of 100 million rounds per month, please explain why it was necessary to initiate urgent order contracts for small-caliber ammunition. What is the cost per round of the urgent order contracts?

General Rafferty. Current inventories of DOD ammunition across the world exceed 1 billion rounds. These rounds are needed to support on-going operations, training and war reserve requirements. The current demand for ammunition exceeded Lake City's capabilities to produce, necessitating the need for the urgent order contracts. The urgent order contracts also provided some level of risk mitigation for a single point failure.

Type	Quantity	Cost	Unit Price
5.56mm	256,818,994	$47,813,356	$0.18
7.62mm	145,571,708	$63,300,447	$0.43
.50 cal	30,692,400	$53,570,303	$1.75

Mr. Weldon. Please detail the scope of work that will be required of the lead systems integrator for the provision of small-caliber ammunition to DoD.

General Rafferty. The purpose of the second source prime contractor is to augment the Army's only organic small-caliber ammunition plant's (Lake City Army Ammunition Plant (LCAAP) capacity and provide some level of risk mitigation for a single point failure. The initial Small-Caliber Ammunition Second Source Prime Contractor will provide the U.S. Army with capabilities for the production, acceptance testing, packaging and delivery of up to 300M rounds of small-caliber ammunition (5.56mm, 7.62mm, Caliber .50) of various types (Ball, Tracer Armor Piercing Incendiary (API), Armor Piercing Incendiary-Tracer (API–T), and Blank) in various packing configurations. This ammunition will be built to the United States Technical Data Packages (TDP) and military specifications.

Mr. Weldon. Please provide the scope of work required to upgrade Lake City to a modern facility and what the plan and budget are to complete the scope of work.

General Rafferty. The Lake City Army Ammunition Plant (LCAAP), located in Independence, Missouri, was built in the early 1940s and is the largest supplier of small-caliber ammunition to the U.S. Armed Forces. Lake City modernization investment since the 1970s has been minimal. Increasing demand for small-calber ammunition, 400 million per year to over 1,200 million per year, has placed an ever increasing burden on these already aged facilities. Although deliveries are being met, the risk for moderate or catastrophic failure has increased dramatically. A modernization effort has been planned to refurbish worn yet operational equipment, replace antiquated machinery, and revamp select processes to streamline production. The high-speed production equipment for 5.56mm ammunition is a key part of the production base and will be mechanically refurbished and all electronic controls upgraded to current programmable logic controllers. For 7.62mm and .50 caliber ammunition production, modernization will consist of refurbishment and purchase of new loaders with integrated inspection systems. All calibers will receive modern handling systems and packaging upgrades. This modification effort will be accomplished with minimal change in the production area footprint. The planned outcome maintains current ammunition deliveries to support the war fighter needs while improvements are implemented and installed. It is estimated to cost $242 million and will also be executed over a five-year time frame if funded.

Mr. Weldon. Please provide the scope of work required to upgrade Lake City to a modern facility and the estimated costs to do so. What minimum upgrades are required to preclude production shortfalls due to the failure of outdated equipment or otherwise preventable accidents?

Mrs. DAVIES. The existing equipment and infrastructure at Lake City provide a significant base which can be modernized more quickly and at substantially lower cost than establishing a new plant. The scope of work to upgrade Lake City includes refurbishing worn equipment, replacing antiquated machinery, and revamping select processes to streamline production. The plan focuses on stabilizing current production capability and systematically developing and implementing new ammunition manufacturing processes and equipment. This will be accomplished with minimal change in the production area footprint to avoid unnecessary overhead cost when future production rates fluctuate. The high speed production equipment for 5.56mm ammunition (referred to as the SCAMP lines) will be mechanically refurbished and all electronic controls upgraded to programmable logic controllers (PLC's). Equipment used to manufacture Caliber .50 and 7.62mm ammunition, which is primarily original equipment from the plant's establishment in 1941, will be overhauled or replaced. The final inspection equipment now used for Caliber .50 and 7.62mm ammunition will be replaced by in-process inspection capability built into the manufacturing equipment. Packaging requirements for all three small-caliber families-5.56mm, 7.62mm, and Caliber .50-are targeted for improvement, both to better serve the warfighter and to reduce manufacturing and shipping costs. Resulting changes to packaging equipment will also be incorporated into the plant upgrade. The plan maintains ammunition production and deliveries to support the warfighter's needs while improvements are implemented and installed. It provides minimum upgrades to preclude production shortfalls due to the failure of outdated equipment. It is not designed to provide a new factory, nor significant infrastructure improvements to the Lake City plant.

The scope of work is estimated to range in cost from $242M to $276M. The Army is reviewing the plan and considering options for funding the portion of modernization which can't be covered under existing budgets. A separate evaluation is underway to identify the infrastructure needs for the plant. As with the manufacturing equipment, some of the structures and utilities are in need of repair and upgrade. The scope of the infrastructure repair is not yet completely defined, so a cost estimate has not been prepared. The infrastructure work can be considered and executed independently from the equipment upgrade. The cost is expected to be only a fraction of that required to establish similar infrastructure at an alternate site.

Mr. WELDON. What are your five biggest unaddressed concerns that could result in personal injury, accident, or reduced production?

Mrs. DAVIES. a. 5.56mm Equipment Electronics and Controls System

The electronics that operate the high-volume 5.56mm manufacturing equipment, otherwise referred to as Small-Caliber Ammunition Modernization Program, or SCAMP, lines, were developed and installed at Lake City in the mid-70's and are based on 30-year-old VAX software technology. These electronic boards are no longer supported by suppliers and must be fabricated in-house. There are some parts that cannot be replaced or rebuilt, therefore, the consequences of failure are high.

b. Aged equipment reaching the end of its expected service life and which does not include modern shielding and guarding.

Much of the equipment used at Lake City is 1940-1950's vintage machine presses. Although this equipment could, theoretically, be maintained to operate indefinitely, equipment uptime is low and significant interruptions often occur unexpectedly. A majority of the original equipment manufacturers are no longer in business, which hinders the ability to acquire or fabricate spare parts that meet the original design of the presses.

Some of the inherent hazards with this type of equipment have been reduced over the years, but the nature and age of the equipment prevents totally risk free operation because it does not include modern guarding and shielding designed to protect the workforce. We are adding basic guarding and shielding enhancements as major overhauls occur, funded by both ATK and the Government, but only a fraction of the total equipment at Lake City has been overhauled. The most common equipment-related injuries sustained by employees involve their hands or fingers and unguarded equipment.

c. Absence of in-process instrumentation and controls on 7.62mm and Caliber .50 manufacturing equipment.

The majority of 7.62mm and Caliber .50 manufacturing equipment does not include electronic instrumentation and controls that provide feedback to the operator on the stability of the process and the conformance of the product to requirements. The operator manually takes a small sample of product and measures it using a hand gauge to validate that production meets requirements and can be passed on to the next step. Inspection of the product, using mechanical inspection equipment, primarily occurs after the full round of ammunition is complete. The inspection equipment itself can damage the ammunition. Changing this process by putting the inspection and monitoring capability upstream in the manufacturing process is a key element of Lake City's upgrade and modernization plan, and will improve the quality of the ammunition while reducing cycle times.

d. Many material handling systems across the plant are outdated.

These manual material handling systems require multiple handling operations that risk damage to the product. Aged buggies (wheelbarrows) are widely used to transport product. These buggies are heavy and awkward, and introduce opportunities for human error and injury.

The modernization plan for the plant includes upgrades to high-risk material handling systems. The manual transfer of material cannot be totally eliminated, but significant improvements to how ammunition is transferred within the factory are possible. Many production interruptions and in-process quality concerns have been traced to a root cause of product or material being out of place or improperly handled due to the manual interface in the handling system and opportunities for human error.

Due to outdated material handling systems, a large number of injuries at Lake City include strains caused by heavy pushing and lifting demands. We have minimized the risk of injury through training and procedure, but risk remains inherent in the operation.

e. Plant infrastructure (e.g., roofing, steam, water, sewer, electrical) condition.

Lake City was constructed in the early 1940's. This construction included normal infrastructure common to a small town. The plant utilities that provide steam, water, sewer, fire alarm systems and electricity have been gradually upgraded over the years, but some original infrastructure remains. These 60-year-old utilities pose a risk to continuous operation of the plant. Although well maintained and serviced, some of these utilities require upgrades to preclude frequent utility failures. Of added concern are the internal distribution systems for utilities that are routed above sensitive electronic areas. This design creates a risk of flooding electrical equipment due to a rupture from water lines overhead. Given the age of the electronics, months of delay could occur from such an event since replacement parts are no longer readily available.

Mr. WELDON. Do you agree with DOD concerns over having only one site for the production of small-caliber ammunition? If not, why not?

Mrs. DAVIES. ATK does not believe that having one site for the production of small-caliber ammunition carries any more risk than is inherent across the entire U.S. defense industrial base. There are numerous key operations located at single sites supplying critical DOD munitions and weapon systems. Since the end of the Cold War, defense-spending reductions forced rationalization of sources across the entire defense industry. It has not been economically feasible to sustain more than one source for many items. Market forces and Government actions have right-sized the industrial base through both consolidation and contraction.

In addition to the primary small-caliber ammunition production capability at Lake City, the ammunition sub-tier supplier base includes single sources for critical items such as the propellant powder used in all ammunition rounds. The theoretical risk to ammunition supply from single-site sub-tier suppliers is just as significant as an interruption to Lake City's operation. ATK has qualified many second and third sources for sub-tier materials, but significant risks remain due to single source suppliers that are critical to the ammunition supply chain. The investment required to establish facilities and sustain additional sources for materials, like propellant powder, is substantial, and the return on investment for these businesses is not attractive.

Given increased demand for small-caliber ammunition in the past two years, and the projected demand over the next few years, we understand DOD's decision to engage other sites to produce small-caliber ammunition. However, the recent spike in demand has been caused not only by the war on terrorism and training needs, but also by past decisions to short ammunition production funding and consume safety stock inventories. Due to the long shelf life of small-caliber ammunition, one practical approach to managing the risk of single sites for ammunition production and the sub-tier supply base is to maintain safety stocks and sufficient inventory to manage surges in demand or potential interruptions in production. The Army is taking steps to improve visibility on requirements and usage of small-caliber ammunition; this will help the predictability and stability of production at Lake City. The cost of maintaining multiple sites for production is likely higher than the cost of carrying inventory. Maintaining an inventory also has the advantage of leveling production requirements, which helps maintain a skilled workforce and results in a more predictable outlay of funds.

Lake City is a national asset that has sustained the nation's small-caliber ammunition needs for decades without significant loss of operation due to security or natural disaster. Concerns about protecting the capability of the facility can be economically and effectively addressed with added funding for security and modernization of the facility to reduce the probability of operational interruptions. In addition, we must ensure that the facility has responsible, capable, and experienced oversight.

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